House of Representatives

Select Committee on Florida's Economic Future

REPORT AND FINDINGS

February 2002
Representative Johnnie B. Byrd, Jr., Chair

INDEX

February 13, 2002

The Honorable Tom Feeney
Speaker of the House of Representatives

Dear Mr. Speaker:

On January 9, 2002, you appointed the Select Committee on Florida's Economic Future for the purpose of gathering information and conducting statewide public hearings to assess the public response to the Senate's proposed changes to Florida's sales tax structure.

The members of the Select Committee thank President McKay for his boldness in tackling this issue and for challenging us to look at Florida's sales tax structure. The members of the Select Committee also thank you, Mr. Speaker, for the opportunity to serve on this committee.

Having met in Orlando, Tampa, Panama City, Pensacola, Miami, Jacksonville, and Tallahassee, the Select Committee reports that the public's response was overwhelmingly against the Senate proposal.

More than a thousand taxpayers and representatives of businesses, most notably small businesses, around the state attended the public hearings.

In addition to hearing from the citizens of Florida, the Select Committee also took testimony and submissions from economists retained by the Senate and House of Representatives, as well as other interested parties.

After full and free deliberation, the Select Committee does hereby submit this report.

Sincerely,

Johnnie B. Byrd, Jr., Chair

Marty Bowen	Bruce Kyle	Joe Negron
Dudley Goodlette	Richard Machek	Frank Peterman
Will Kendrick	Mark Mahon	Leslie Waters
Suzanne M. Kosmas	Stan Mayfield	

LIST OF MEMBERS

Representatives:	Johnnie B. Byrd, Jr., Chair
	Marty Bowen
	Dudley Goodlette
	Will Kendrick
	Suzanne M. Kosmas
	Bruce Kyle
	Richard Machek
	Mark Mahon
	Stan Mayfield
	Joe Negron
	Frank Peterman
	Leslie Waters

INTRODUCTION[1]

The Select Committee on Florida's Economic Future (Select Committee) was appointed on January 9, 2002. The Select Committee was charged to exhaust every effort in gathering information and assessing the public sentiment towards President John McKay's proposal to overhaul Florida's tax structure.[2] The Select Committee set out to gather information from three main sources: the public, experts, and other stakeholder groups.

Public Hearings

Representative Johnnie Byrd introduced each public hearing by reminding the members that whenever public officials begin to look at any tax reform, first consideration must be given to ensuring that any tax reform takes into account Florida's future. He cautioned that the committee must make sure that Florida's tax system is affordable to all of Florida's residents, encourages young people to stay in Florida, attracts seniors to retire here, and attracts business and industry to create high-quality, high-paying jobs.

The Select Committee met and heard testimony from the public at the following times and locations throughout the state:

Friday, January 24 - Orlando
Friday, January 24 - Tampa
Thursday, January 31 - Panama City
Friday, February 1 - Pensacola
Thursday, February 7 - Miami
Friday, February 8 – Jacksonville
Monday, February 11 – Tallahassee[3]

Testimony from the public hearings is summarized in Appendix A.

Experts

The Select Committee also took testimony and received submissions from Doctor Hank Fishkind, Fishkind & Associates, Inc., and Professor Randall Holcombe, Professor of Economics, Florida State University. [4]

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[1] This report was drafted by the staff of the Select Committee in consultation with Professor Randall Holcombe, Ph.D. The Committee thanks Professor Holcombe for his significant contributions.

[2] Letters from Speaker Tom Feeney. On file with the Speaker's office.

[3] The Tallahassee meeting was convened for the purpose of allowing the members of the Select Committee the opportunity to ask questions of the Senate proposal with economists representing both sides of the issue.

Stakeholders

In addition to reviewing Senate Joint Resolution 938 and Senate Bill 1106[5], the Select Committee reviewed various reports and submissions from the public, small businesses, Governor Jeb Bush, and a number of interest groups.

DISCUSSION OF FLORIDA'S TAX STRUCTURE

State Revenues

Slightly more than half of Florida's state tax revenues come from the Sales and Use Tax (which, for brevity, will be referred to as the sales tax). Florida's sales tax was originally enacted in 1949, and at that time it was based on clear principles that delineated the tax base. The tax was originally designed to tax retail sales of tangible goods.[6]

In fiscal year 1999-2000 Florida's budget, measured by appropriations, was $48.7 billion, and state taxes were $32.5 billion, so taxes made up 66.7 percent of total appropriations. Of total taxes, sales and use tax collections were $15.8 billion, so in that year the sales tax made up 48.5 percent of total taxes, and 32.4 percent of appropriations. From these figures, it is apparent that the sales and use tax is crucial to the financing of the state's current activities. State taxes rose substantially in the 1990s, even after adjusting for inflation and population growth. Notably, there was no increase in the sales tax rate during this period. Inflation-adjusted state taxes per person in 1999-2000 were $1,873, which was a 17.5 percent increase over their level of $1,594 in 1990-1991. Not only did state taxes rise after adjusting for inflation and population growth, they rose as a percentage of state income from 6.2 percent of income in 1990-1991 to 6.6 percent of income in 1999-2000. Thus, Florida's tax revenue growth has been strong, and any concerns about the adequacy of Florida's tax structure are misplaced.[7]

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[4] Dr. Fishkind is under contract with the Senate, and Professor Holcombe is under contract with the House of Representatives.

[5] A summary of CS/SJR 938 and CS/CS/SB 1106 is attached as Appendix B.

[6] Professor Randall G. Holcombe, Ph.D.

[7] See Professor Randall G. Holcombe, "Florida's Tax Structure: An Overview and Evaluation," James Madison Institute Policy Report #27 (October 2000) for a more complete description of Florida's overall tax structure and additional support for this argument.

Florida's sales tax has performed equally impressively over the past decade. Appendix C shows the history of Florida's sales tax revenue through the 1990s, with some data going back to earlier decades. The first column in the table shows inflation-adjusted taxes per person, which rose from $680 in 1990-1991 to $908 in 1999-2000, for an increase of 33.5 percent in the decade of the 1990s. Sales tax revenues grew even more rapidly than total tax revenues. Data for earlier years also shows an impressive growth, albeit partly due to sales tax rate increases. The rate was increased from 5 percent to 6 percent in 1987, and from 4 percent to 5 percent in 1981. In the 1990s, however, the rate remained at 6 percent through the whole decade.[8] The next column shows the annual percentage increase in sales tax revenues. Sales tax revenues went up in every year in the 1990s, even after adjusting for inflation and population growth, and in most years showed a very strong growth. The next column shows sales taxes as a percentage of total tax revenue. Again, Florida's sales tax is increasing not only in absolute terms, but as a share of total taxes. Sales taxes were 48.5 percent of total taxes in 1999-2000, compared with 42.6 percent in 1990-1991. Sales taxes are also rising as a percentage of personal income in Florida, as the final column in the table shows. Sale taxes were 2.8 percent of income in 1990-1991, and rose to 3.4 percent of income in 1999-2000. Part of this growth is due to the fact that non-Florida residents who visit the state buy sales taxable items and pay Florida sales taxes. Thus, while sales tax collections per Florida resident are 3.4 percent of income, typical Floridians pay less of their incomes in sales tax than this, with the difference paid by non-Florida residents.

With so much of Florida's revenue raised through the sales tax, one of the most important questions for Florida's future is whether the sales tax will be able to provide an adequate revenue stream in the twenty-first century. The answer is that the sales tax provides a good tax base for many reasons. It will grow along with Florida's economy, it is more compatible with economic growth than an income tax, and it is especially well-suited to Florida's economy which is heavily tourism-oriented. Sales tax revenues have grown faster in the 1990s than in the previous two decades. In the 1980s they increased from $523 to $680, for an increase of 30 percent, and in the 1970s from $464 to $523, for a gain of only 12.7 percent. While the sales tax rate has been increased periodically, it has remained at 6 percent throughout the 1990s, so the increase is due primarily to economic growth, not changes in the rate. This indicates that the sales tax base is not eroding, and should provide a strong source of revenues into the foreseeable future.

One of the strengths of the sales tax for the state of Florida in particular is that with tourism as a major industry, the sales tax levies taxes on out-of-state residents in a way that an income tax could not. This is fitting and fair, because visitors to the state use government facilities and services along with residents.

[8] This is the state rate, and does not include local option sales taxes that are used in many jurisdictions.

The sales tax also has the advantage that it is more difficult to avoid than an income tax. To use one example, profits from illegal transactions would go untaxed by an income tax because the profits are not reported, but when those profits are used to buy goods in the Florida economy, the sales tax creates revenues from that income.

Some people are concerned that as the economy turns more toward the production of services rather than goods, and as more sales take place over the Internet, the sales tax base will be eroded. There is no evidence of that thus far. In fact, in the past decades sales tax payments as a percentage of income have actually grown.[9] Even if non-taxed sales as a percentage of the economy did grow, that still would not imply a shrinking of sales tax revenues. As long as there is a growth in the purchase of sales-taxable items, which surely will be the case as income grows, sales tax revenues will continue to grow.[10] A recent study by Professor Randall Holcombe addressed the issue of services and Internet sales in more detail, and argued that they are not a threat to Florida's sales tax base.[11] Internet sales receive much press, but should be almost a non-issue, because Internet sales will remain a small part of total sales, and as Internet sales grow, many of these sales will be from in-state businesses that already collect sales taxes.

According to Professor Holcombe, the most significant threat to Florida's sales tax revenues is not erosion of the tax base, but erosion of revenues because of sales tax exemptions granted by the Legislature. The evidence shows that the tax base (taxable sales) is growing, but the Legislature always faces the temptation to give sales tax exemptions to interest groups, and these exemptions erode the revenue-generating capacity of the tax even though sales are growing. The temptation to grant special interest exemptions is especially strong when a healthy economy brings with it strong revenue growth. If the Legislature can resist the temptation to grant special interest exemptions, the sales tax will remain a strong source of revenue as taxable sales grow.

At least equally important as the question of whether Florida's tax structure will provide the necessary revenue for government services, is the question of the effects of Florida's tax structure, both current and proposed, on Florida's businesses. A healthy business climate is imperative to job growth.

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[9] See Appendix C.

[10] Note that under Florida law, residents are supposed to pay Florida sales tax on their out-of-state purchases, including those by mail order and over the Internet. As a practical matter, this provision is difficult to enforce, and is generally ignored. Thus, these sales are, for practical purposes, untaxable, even though technically they are a part of the tax base.

[11] Professor Randall G. Holcombe, "Florida's Tax Structure: An Overview and Evaluation," James Madison Institute Policy Report #27 (October 2000).

Effect on the Economy

Information gathered for the use of the Joint Economic Committee of Congress suggests that for each additional one percent of national output that the government increases spending, the Dow Jones Industrial Average falls somewhere between 500 and 1000 points. State and local governments raise taxes to finance new spending. This lowers returns to both human and physical capital investment. Similarly, the federal government often borrows the money, but this results in increased interest rates, inflation, or exchange rate price mechanisms that crowd out private activity. Higher spending by government results in lower productivity per worker, because the productivity of private sector workers is higher than that of public sector ones.[12] A decline in revenue associated with recession is temporary, and should not be replaced by a permanent revenue source such as new or increased taxes.[13]

It is instructive to look at how other states have dealt with recessions in the past. The country was in recession in 1990-91. California enacted a $7 billion tax increase in 1991—the largest in U.S. history. This tax increase led to a decline in state revenue growth because so many businesses and taxpayer workers fled the state. At that time in New Jersey, a tax increase caused a real estate depression and a loss of more than 250,000 jobs.[14] These are but two examples, however, the impact of the tax increases was a substantial loss of jobs, income, and investment capital relative to the rest of the nation.[15]

In another study, it was found that for a sample of seven states, a one-percentage-point increase in the state income tax in 2002 would cause the number of jobs to fall by 1.4 percent.[16] Although an income tax is not contemplated at this time, Florida's citizens and small businesses are clearly concerned about new taxes, and particularly tax pyramiding that would make Florida's businesses less competitive resulting in a loss of businesses and jobs.[17]

According to Florida TaxWatch: "promoting tax reform first and foremost to stabilize the state tax structure's revenue-generating capacity addresses only one piece of a very complex puzzle and <u>fails to ask the right questions.</u> How will tax reform affect Florida's economy, both in the short-term and over the long haul

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[12] Crisis in State Spending, A Guide for State Legislators, American Legislative Exchange Council, 2002, p. 7.

[13] Id. At 8.

[14] Id. at 20.

[15] Id. at 20.

[16] Id. at 37 (Citing a Beacon Hill Institute report)

[17] See "Summary of Public Testimony", attached as Appendix A.

in an exponentially changing economy? Will individual Floridians be better or worse off as a result? How will Florida tourists – from out of state and in-state resident tourists – be effected, and how will that affect Florida's economy? Are the economic assumptions upon which the study is based clear, sound and acceptable? Is the stated principal of revenue neutrality justified in today's unstable economy? Will Florida's business climate be a casualty or beneficiary of tax modernization? Do the proposed changes promote a world-class business climate? How will capital formation, personal income, job growth, savings and corporate profits be affected?"[18]

Government Spending

A reasonable approach to state spending would be to determine the state's needs in order to determine how much state government will spend. Unfortunately, it is estimated tax revenue that determines how much government will spend.[19] Government spending typically expands to consume every available tax dollar.

"There is a solid body of empirical research which validates the not too surprising finding that a dollar increase in tax revenues causes nearly a dollar increase in state spending."[20] On a national basis, between 1990 and 1998, state government expenditures climbed from $752 billion to $930 billion. When adjusted for inflation, this translates into an increased expenditure per person of $630 during that period. The states with the greatest percentage increase in their budgets during the 1990's (Arizona, Maryland, Tennessee, North Carolina, and Virginia) are experiencing the greatest fiscal crisis now.[21]

In addition to the question of whether Florida's tax base is sufficient, is the question of the additional cost of government to manage and oversee the new tax structure proposed by the Senate.

In a letter to the President of the Senate and Speaker of the House of Representatives, Governor Jeb Bush stated that the Senate proposal would result in an increase in size of the Department of Revenue. In order to audit and enforce compliance of the new businesses required to file taxes, the Department estimates that over 200 new employees will be needed – a ten percent increase

[18] Special Report, The Second in a series of Special Reports on Modernizing Florida's Tax System, The Center for a Competitive Florida. Florida TaxWatch, February 2002.

[19] Crisis in State Spending, A Guide for State Legislators, American Legislative Exchange Council, 2002, p. 36.

[20] Id. at 17.

[21] Id. at 18.

in the general tax administration personnel. Funding for the new positions will require an additional $10-11 million in general revenue.[22]

In addition to the increase in the size of government, the Governor points out that the tax code will get bigger and more complex in order to accommodate the taxation of currently untaxed activities.[23] This point was emphasized many times in the public testimony. Small business owners providing such services as lawn-care and housekeeping testified at the public hearings that they are very concerned about the added burden of complying with complex tax filing requirements.[24]

OTHER REPORTS AND REACTIONS

Following are some notable reactions to the Senate proposal. This is not intended to be an exhaustive list, but is a sampling of the most prominent written responses available to the Select Committee at the time of drafting this report.

1. Governor Jeb Bush

By letter dated February 7, 2002, Governor Jeb Bush informed President McKay and Speaker Feeney of his opposition to the Senate plan. Specifically, the Governor stated that he could not support a plan that would lock into Florida's Constitution any plan that does not embrace the fundamental principle that government should not grow faster than our ability to pay for it. The Governor opines that the proposal is on a shaky foundation and addresses critical questions about the impact of the proposal on Florida's personal and business taxpayers.[25]

2. State Tax Reform Task Force

The State Tax Reform Task Force was created in 2000 and directed to examine the state's tax structure and make recommendations to the Governor and Legislature on how the state's tax structure can be improved to ensure a stable revenue base that is adequate to fund the needs of the state. The Task Force created a set of six Principles of Taxation, and recommended that any revision or amendment to the tax code be in conformance with these principles. However,

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[22] Letter from Governor Bush to Senator McKay and Speaker Feeney, February 7, 2002, attached as Appendix D.

[23] Id.

[24] See "Summary of Public Testimony", attached as Appendix A.

[25] Letter from Governor Bush to Senator McKay and Speaker Feeney, February 7, 2002, attached as Appendix D.

the Task Force recommends that tax and spending limitations be enacted prior to any attempt at major reform. The Task Force contemplates a review of current tax exemptions.[26]

3. TaxWatch

Florida TaxWatch plans to publish a series of Special Reports on Modernizing Florida's Tax System. The second report in the series was published in February 2002. In this report, TaxWatch applauds President McKay for provoking debate in Florida's tax structure, but states it is opposed to legislating with the State Constitution, especially given the enormously complex and dynamically changing issues included in the constitutional initiative. TaxWatch states that even if done legislatively, it has other strong reservations about radically changing the sales and use tax proposal without examining both the intended and unintended consequences such a major tax change may have on Florida's people and economy.[27]

4. Associated Industries of Florida

Associated Industries of Florida indicated they would support an orderly, systematic review of all current sales-tax exemptions and exclusions.[28]

SUMMARY

The members of the Select Committee committed substantial time and energy to their review of the important question of Florida's sales tax structure. The members took a hard look not only at Florida's sales tax structure, but spending as well.

The primary task assigned to the Select Committee was to gather information and public response to the Senate's tax reform proposal. The response from the six public hearings held around the state was overwhelmingly against the proposal. More than a thousand taxpayers and representatives of small businesses around the state attended the public hearings. A total of over 250

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[26] State Tax Reform Task Force, Executive Summary, 2002, attached as Appendix E. (It should be noted that this Task Force came into being prior to the Senate proposal, however, the Executive Summary cited was produced after the Senate made the proposal for tax reform.) http://www.state.fl.us/edr/taxref/tindex.htm

[27] Special Reports on Modernizing Florida's Tax System, The Center for a Competitive Florida. Florida TaxWatch, attached as Appendix F.

[28] Proposal for Business Tax Reform Group, Political Operations Division, Associated Industries of Florida, Dec. 20, 2001.

people addressed the committee, and of that number only 10% spoke in favor of the Senate proposal.

Many who supported the Senate proposal were connected to government either through employment, or as a recipient of government services. As one speaker put it, "you have those who pay the taxes, and those who spend the taxes". Those who pay, oppose the Senate proposal.

The economists for the Senate and the House of Representatives respectfully disagreed as to the wisdom of the Senate proposal. Professor Holcombe had serious reservations about each of the underlying premises of the Senate plan. In fact, Professor Holcombe demonstrated that Florida's sales tax revenue is growing faster than Florida's economy.[29]

One of the arguments for tax reform relates to remote sales, including sales over the Internet. According to one source, the impact of electronic commerce was 0.8 percent of aggregate retail sales in 2000.[30] The Florida Department of Revenue estimates the e-commerce tax losses for 2001 were approximately $225 million.[31] The University of Tennessee's estimate for 2001 is $923 million.[32] Professor Holcombe indicated there is no evidence that Internet sales are eroding Florida's sales tax base. According to Professor Holcombe, the threat is minimal for two basic reasons: first, underneath the technology, Internet sales are similar to catalog sales, with similar disadvantages in competing with local retail outlets; and, second, Internet sales will increasingly be made by companies with a physical presence in Florida, who will remit sales taxes on those sales. Dr. Fishkind testified on February 11, 2002, in Tallahassee, that the Senate proposal does not affect Internet sales or taxation of the Internet at all.

According to Dr. Fishkind, Florida households will save $227, on average, per household under the Senate plan; however, according to Professor Holcombe, if the proposal is revenue neutral and tourists will be paying less, then certainly Florida citizens will be paying more. In addition, since many goods and services will be added to the tax rolls, most of those taxes will be passed on to the ultimate consumer in the form of higher prices.

Many of Florida's citizens scoffed at the assertion that the end result would be revenue neutral. Several asked if the proposal is revenue neutral, then why do

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[29] Florida's Tax Revenue Growth, 1970-2000, Professor Randall Holcombe, attached as Appendix G.

[30] Crisis in State Spending, A Guide for State Legislators, American Legislative Exchange Council, 2002, p. 46.

[31] Letter from Governor Bush to Senator McKay and Speaker Feeney, February 7, 2002, attached as Appendix D.

[32] Id.

it? They ask if the proposal is revenue neutral, how will Florida fund the additional $10-11 million necessary for the Department of Revenue to enforce and collect the new taxes. The citizens expressed considerable concern regarding the growth in government and government priorities. They suggested government should learn to live within its means – just as every one of them must do.

There was tremendous concern by small businesses regarding tax pyramiding. In the border towns, this question was even greater because it is convenient for consumers to drive across the border to Alabama or Georgia to obtain a better price. The transportation industry and accounting services gave compelling testimony regarding their small profit margins and the ease of replacing them with out-of-state competitors.

The taxpayers of Florida expressed great concern about the uncertainty of this proposal in placing the matter in the constitution, and about giving the Legislature two years to flesh out the plan. As the Senate proposal currently stands, it is not revenue neutral. Even with the increase of the proposed sales tax from the original 4% to 4.5%, the additional exemptions cause this plan not to be revenue neutral. Florida's taxpayers have little confidence that the result will be favorable to the Florida's citizens and economy.

FINDINGS

The Select Committee finds:

1. Florida's economic future is inextricably tied to a vibrant and thriving private sector economy that will continue to be a leader in creating prosperity for all Floridians into the twenty-first century.

2. The Senate plan is not the way to ensure Florida's economic future in the twenty-first century.

3. Florida's sales tax structure is not in crisis, and now is not the time to make radical changes, but to initiate an orderly and methodical interim study of the strengths and weaknesses of the current system. [33]

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[33] For example, Professor Holcombe suggested Florida's sales tax could be redesigned so that it is based more on tax principles, even with its current structure. Rather than its current philosophy of taxing every transaction except those that are exempt, the law could be redesigned to organize sales taxation into three basic categories: the sale of retail goods and services; the use of certain goods and services that are not purchased; and the sale of goods and services to business. Such a change could be made to retain the current tax structure, but to change the current tax philosophy.

Changing the sales tax law in this way would enable a more principled evaluation of exemptions, and would increase the probability that future changes in the sales tax would benefit the general

4. The most effective and direct way to deal with revenue slowdowns due to the business cycle is for the Legislature to set aside reserves in a stable and adequate reserve fund. The testimony was unequivocal that the Senate plan does nothing to address revenue slowdowns resulting from the normal business cycle or the events of September 11, 2001. The Select Committee supports an interim study to recommend modifications to the current Budget Stabilization Fund, or an alternative or additional reserve fund.

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interest rather than special interests. When compared to Senate President McKay's proposal, this proposal (1) would make fewer changes in the short term, and would retain the current tax's basic structure, but (2) would recognize the need to continue to make changes in the sales tax to adjust to future changes in Florida's economy, rather than locking Florida in to a more rigid structure of sales taxation through the proposed constitutional amendment.

The Select Committee supports a methodical evaluation of the sales tax structure over time, allowing an opportunity to assess the ramifications of any proposed changes to Floridians and those businesses that provide jobs. Therefore, the Select Committee supports an interim study to recommend a philosophy and principles for evaluating Florida's sales tax structure and to ascertain the effects of the proposed philosophy on Florida's citizens and economy. There are too many unknowns under the Senate plan.

APPENDIX A

Appendix A

Summary of Public Testimony[1]

The House Select Committee on Florida's Economic Future ("Select Committee") was charged with gathering information and public sentiment towards Senate President John McKay's sales tax reform proposal. The response from the six public hearings held around the state was overwhelmingly against the proposal. Hundreds of citizens and representatives of small business around the state attended the public hearings.

The Select Committee met in the following locations throughout the state on:

Friday, January 24 - Orlando
Friday, January 24 - Tampa
Thursday, January 31 - Panama City
Friday, February 1 - Pensacola
Thursday, February 7 - Miami
Friday, February 8 – Jacksonville
Monday, February 11 – Tallahassee[2]

Orlando Meeting (Friday, January 24) (52 proponents / 5 opponents)

In addition to the members on the Select Committee, House Speaker Tom Feeney and Representative Fasano were in attendance.

Individuals and representatives of the following interest groups testified before the Select Committee:

Dry Cleaners
Coin Laundry Owners
Sub-Contractors (Construction Industry)
High Technology & Information Technology Firms
Commodity Producers (small independent farmers and ranchers)
Funeral Home Operators
Real Estate Agents
Film and Motion Picture Industry Representatives
Hospital Associations
Education Lobbyists and Individual Teachers
The American Association of Retired Persons ("AARP")
Various Independent Business People (optometrists, lawn care providers, law

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[1] This is not a word-for-word transcription. Copies of the tapes of the hearings are available upon request.

[2] The Tallahassee meeting was convened for the purpose of allowing the members of the Select Committee the opportunity to ask questions and debate the merits of the Senate proposal with economists representing both sides of the issue.

offices and CPAs)
Other Concerned Citizens

Economists:
Mr. Stan Geberer, *Fishkind and Associates, Inc.*
Professor Randall Holcombe, *DeVoe Moore Center, Florida State University*

Speaker Feeney began the testimony by stating he appointed the House Select Committee because he was concerned that the Senate proposal may be too big an issue to address in such a short period of time, even though he is a strong supporter of reducing the state sales tax from 6% to 4.5%. Further, he was worried about potential legal issues arising because the sales tax proposal constitutionally repeals all statutorily mandated sales tax exemptions, but also statutorily reinstates specific exemptions. Additionally, Speaker Feeney pointed out that more information is needed to understand the costs of collecting the new service taxes. Finally, the Speaker was concerned about the Senate's proposed creation of three different sales tax rates within the state of Florida (e.g., the 6%, 4.5%, and 1.5% rates).

Speaker Feeney expressed his belief that Florida may not be overtaxing its residents, but that the growth of government spending in the state has increased much too rapidly. He also believes the solution to ensuring Florida's economic future lies in broadening the state's economic base and not in expanding the state's tax base. The Speaker concluded by charging the Select Committee to use the House's fundamental principles as a guide for judging the Senate's proposal.

After Speaker Feeney's words, the Select Committee heard testimony from various groups and individuals who overwhelmingly opposed the Senate proposal. One hundred and eighty-two people attended the Orlando meeting and over fifty-seven people testified before the Select Committee. The description of the public testimony is organized by groups that both support and oppose the Senate proposal.

Opposition to the Senate Proposal:
Dry cleaners argue the Senate proposal will negatively affect their industry because their rates are already heavily impacted by various government taxes and fees (the costs associated with environmental fees and the sales tax charged on the purchase of cleaning supplies). Additionally, they argue that it is unfair to charge a service tax on their customers who have already paid sales tax on the purchase of their garments.

Coin laundry owners believe the Senate proposal is a regressive tax because their services are consumed by lower income Floridians. Thus, taxing coin laundry operators means the tax will be passed on to the most economically disadvantaged residents in Florida. Further, they believe the Senate proposal is unfair because people who buy a washing machine and dryer only pay a one-time sales tax, but the Senate proposal guarantees persons using coin operated machines will continue to pay sales tax each time they do laundry. Finally, it is not technologically possible for coin laundry operators to increase the costs of washing clothes by 4.5 cents because coin operated machines only accept quarters. This means the cost of using coin operated laundry machines will increase by one quarter.

A painting sub-contractor pointed out that the Senate proposal will force many licensed and bonded construction sub-contractors out of business. They believe that since consumers can hire sub-contractors who do not pay workers compensation or other government charges, legitimate construction sub-contractors will be forced to eat the costs of the Senate proposal (which will further reduce their profit margin) or risk pricing themselves out of the construction sub-contracting market.

High technology firms are concerned the Senate proposal will force businesses to seek services in other states. Technology consultants explained the decision to hire high tech consultants is often based on bid differences of 1-2%. This means the Senate proposal will force them to cover the costs of the new sales tax or lose contracts to lower priced out-of-state firms. Finally, high tech firms are concerned the tax will create a double tax on their clients who already pay sales tax on the software they use.

Commodity producers are opposed to the Senate proposal for four reasons. First, it creates new taxes on transportation and animal feed used by Florida farmers and ranchers. Commodity producers cannot pass on the added cost to commodity brokers because the brokers can purchase the same commodities produced in other states at lower costs. Second, agricultural interests cannot pass on the cost of the tax to consumers because farmers and ranchers are "price takers, not price makers." Third, cattle ranchers often ship young animals to feed farms in North Florida and then ship the animals back to Central Florida; therefore, the Senate proposal means they will be paying the 4.5% transportation tax twice. Finally, the state of Florida does not tax groceries, so taxing agriculture products used for human consumption is unfair because it is an indirect tax on the purchase of groceries.

Funeral home operators are concerned they will have to pay the 4% sales tax because their services are already so expensive. They question the ethics of passing the tax on to grieving families. Additionally, they are concerned about needing to buy new software and having to hire accountants to comply with the tax.

Real estate agents are against the Senate proposal because it will drive consumers to sell property on their own (For Sale By Owner). Consumers will avoid the new service tax by not using real estate agents.

Representatives from the film and motion picture industry are strongly opposed to the new service tax. They argue the tax will put Florida's film and motion picture business at a competitive disadvantage to other states and foreign countries that actively attract producers with tax exemptions. The tax will directly impact the 39,000 full time and the 100,000 part-time employees involved in making films and commercials in Florida. Roughly 50% of the film and motion picture business in Florida revolves around the creation of commercials and the 1987 service tax resulted in a national boycott by advertisers, costing the state $2.5 billion in revenues.

Various small independent business owners (optometrists, lawn care providers, law offices, and CPAs) expressed their opposition to the proposal. Optometrists were concerned the Senate proposal added a 4.5% tax to eyeglasses and contact lenses even though the federal government classifies these products as medical services. A lawn care provider offered two reasons why the proposal will force him out of business. First, most of his clients can cut their own grass, but prefer the convenience of low cost yard service. Second, he will need to purchase software and accounting services in order to implement the tax. CPAs believe the tax will create the same administrative nightmares for small business owners that the 1987 service tax created.

Finally, several concerned citizens voiced their opposition to the Senate proposal. Three citizens expressed concern about using a referendum to determine the outcome of the Senate proposal because putting the issue on the ballot will guarantee its passage. This will occur because voters always support referendums that appear to decrease taxes. Additionally, using the referendum process will allow groups seeking protective tax exemptions to use the initiative process to pass self-serving tax exemptions in the future. Finally, one person expressed doubt that the Senate proposal is revenue neutral, and believes it is a method to disguise a tax increase.

<u>Groups Supporting the Senate Proposal:</u>
Three groups supported the Senate proposal: hospital administrators, education lobbyists and independent teachers, and the AARP. A representative from a local hospital supported the Senate proposal because he believed it would stabilize Florida's tax base. He pointed out roughly two-thirds of hospital revenues are paid for by the government. Additionally, a reduction in the state's health care spending results in smaller matching grants from the federal government, which in turn decreases Florida's ability to help people in medical need.

Teachers and education lobbyists supported the Senate proposal because they believe the state needs to stabilize its revenue sources from economic downturns. Arguably, the proposal stabilizes revenues because people will always need services and will continue to consume them even in bad economic times. Finally, a representative of the AARP supported allowing the state's residents to vote on the proposal because it insulates the budget from economic downturns that have a disproportionately negative affect on Florida's seniors.

Questions Posed by Members to Mr. Stan Geberer:
Representative Byrd asked the members of the Select Committee if they had any questions after the presentations by the economists. Mr. Geberer was asked five questions, three that he was unable to completely answer. However, Professor Holcombe provided answers to the questions Mr. Geberer could not answer.

Representative Kyle: Mr. Geberer, do you have any idea how many businesses that are not currently being taxed will be taxed by the Senate's proposal?

Mr. Geberer: No Sir.

***Representative Kyle*:** Have you spoken with the current Director of the Department of Revenue to ask how the Senate proposal will affect the Department?

***Mr. Geberer*:** No Sir.

Representative Goodlette: You keep speaking about the tax reducing the net benefit to tourists. This means that tourists benefit from the current sales tax structure. So what is the benefit tourists currently receive?

Mr. Geberer: Sir, what I actually mean is that the Senate proposal would benefit tourists by reducing the amount of sales tax they pay on certain types of tangible property. Thus, I do not mean tourists currently benefit from the sales tax system, but would benefit if the Senate proposal was adopted.

Representative Negron: Will legal services be taxed under the Senate proposal?

Mr. Geberer: Yes Sir.

Representative Negron: Will the service tax be due at the time a service is rendered or after the service provider receives payment from their client?

Mr. Geberer: I do not know Sir.

Professor Holcombe: In response to the number of new businesses being taxed - I expected the number will be at least 300,000. This prediction is based on the number of new businesses filers after the 1986 service tax was provided.

And in response to the cost of compliance questions, I estimated the cost to be around $360 million on Florida's businesses. This is based on a study of Washington State's service tax that estimated the compliance cost of their tax to be $1,200 per business per year. Multiplying this by 300,000 (the number of new businesses being taxed) gives me a ballpark figure of $360 million per year.

As for the "benefit to tourists" question, I estimated their benefit by assuming tourists pay 15% of the state sales tax (the percentage is between 15-20%). Further, using last year's tax revenues and lowering the tax rate from 6 to 4.5% means tourists will pay $630 million less in sales tax. However, the Senate just amended their proposal, and now intend to keep the rate tourists pay on rental cars and hotel rooms at 6%. This means they will pay $286 million more under the revised Senate proposal, and means tourists will pay $344 million less than they did last year. Finally, the Senate proposal is revenue neutral, suggesting Floridians will be picking up the $344 million shortfall.

Tampa Meeting: (Friday, January 24) (27 opponents / 7 proponents)

In addition to the members on the Select Committee, Representatives Joyner, Henriquez, and Speaker Pro Tempore Murman were in attendance.

Individuals and representatives of the following interest groups testified before the Select Committee:

Dry Cleaners
Coin Laundry Owners
Construction Sub-Contractors
High Technology & Information Technology Firms
Commodity Producers (small independent farmers and ranchers)
Real Estate Agents
Film and Motion Picture Industry Representatives
Education Lobbyists and Individual Teachers
The American Association of Retired Persons ("AARP")
Various Independent Business People
(lawn care providers, CPAs, engineering firms, and air conditioning firms)
A Nonprofit Economic Development Group
Other Concerned Citizens

<u>Economists:</u>
Professor Randall Holcombe, *DeVoe Moore Center, Florida State University*

One hundred and seventy-two people attended the Tampa meeting and thirty-four people testified before the Select Committee. Additionally, Professor Randall Holcombe presented his analysis of the Senate proposal to the Select

Committee. The description of the public testimony is organized by groups that both support and oppose the Senate proposal.

Opposition to the Senate Proposal:
There are four reasons why dry cleaners are against the Senate proposal. First, the proposal creates a double tax on people who use dry cleaning services (they will be paying sales tax to buy and to dry clean their garments). Second, the Senate estimates that taxing dry cleaning services will raise $58 million, but dry cleaners already pay a 2% environmental clean up fee that raises $11 million. Thus, doubling the 2% clean up fee would bring in $22 million, which is well short of the $58 million the 4.5% service tax is predicted to collect. Third, most dry cleaners are mom and pop shops struggling to break even. Adding a 4.5% service tax will put most of these firms out of business. Finally, dry cleaners are worried that using a constitutional amendment will force Floridians to live with the Senate proposal for two years, regardless of the proposal's affect on the state's economy.

Coin laundry business owners are against the proposal because they are already "taxed to death." Coin laundry owners pay taxes on rent, taxes on the purchase of équipment and supplies, and environmental impact fees ($5,000 per machine). Thus, adding any new taxes will either put them out of business or force them to raise their rates by twenty-five cents. This will happen because coin operated laundry machines only accept quarters. Finally, dry cleaners argue the Senate proposal is unfair to seniors and other people living on fixed incomes because these are the types of people who use coin laundry services. They believe the tax is unfair because it is paid every time someone washes their clothes. Yet people who buy laundry equipment only pay a one-time sales tax to wash their clothes.

Various construction sub-contracting firms expressed their strong opposition to the Senate proposal. A roofing contractor argued that the proposal would force them to increase what they charge customers. They already pay massive costs associated with being legitimate construction sub-contractors; these costs include insurance premiums, workers' compensation, regulatory charges, and business taxes. The roofer expressed concern that the true impact of the Senate proposal is greater than the 1.5% sales tax because the proposal increases taxes on shipping, insurance, and accounting services. Sub-contractors fear the Senate proposal will force them out of business because consumers can hire "handy men" who are not licensed or bonded.

Numerous commodity producers expressed their opposition to the Senate proposal. Aquaculture farmers expressed that the Senate tax on freight will put them out of business because they are only able to compete with foreign fish farmers because of relatively inexpensive American air freight (aquaculture is the second biggest user of air freight in Southwest Florida).

Ranchers are deeply concerned that the Senate proposal will increase the costs of shipping feed into Florida and cattle out of the state. The tax increase is expected to reduce the rancher's profit margin by 10%. Further, citrus producers point out they use many of the services proposed to be taxed by the Senate. Thus, the affect on their business is much greater than the 4.5% sales taxes on animal feed and fertilizer. Finally, Farming for the Future argues that farmers pay six dollars in taxes for every dollar in government services they use. Therefore, it simply is not fair to increase the taxes paid by agriculture because they are huge sources of revenue for state and county coffers.

Real estate agents are happy that the Senate proposal exempts real estate commissions from being taxed; however, they oppose the proposal for two reasons. First, the proposal interferes with the homestead exemption (no reason was provided). Second, the proposal increases the cost of home buying due to an increase in closing costs (e.g., closing costs on a $122K home would increase $469). This increase would occur because real estate agents rely heavily on accounting, attorney, pest control, and property inspection services in the closing process of buying homes.

A representative of a nonprofit statewide economic development group believes the Senate proposal removes many of the fiscal enticements used to attract business to Florida. He believed removing some tax exemptions may not be a bad idea, but argues the Legislature should review all exemptions to determine which ones should be repealed.

Several concerned citizens spoke out against the Senate proposal because they believe it will actually increase taxes. One person argued putting the idea before voters is a huge mistake because people have no idea what the effects of the proposal really are. Another person expressed disgust with the idea of taxing services because it will result in a tax increase for many people. Finally, it was urged that the state should reduce spending rather than increase taxes.

Various independent small business owners expressed their concerns about the Senate proposal. A money management firm argued the proposal is fundamentally unfair because it increases their costs on out-of-state clients who can easily take their business to out-of-state firms. Additionally, the Senate proposal is unfair because it taxes money management firms but does not tax stockbrokers who compete with financial management firms for the same clients.

An independent plumber opposed the plan because it requires business people, and not the state, to collect the service tax.

The owner of an independent CPA firm, who is also a professor of accounting, believed the Senate proposal will result in all of his clients on the I-10 corridor taking their business to Georgia and Alabama. Additionally, the Senate's proposal requires service professionals to pay the tax at the time they send out billing invoices, even though clients do not pay invoices immediately. Finally, his calculation suggests the Senate proposal increases the amount of taxes paid by Floridians while it decreases the taxes paid by tourists.

The owner of an engineering consulting firm stated that the vast majority of his clients are not based in Florida; this means he either pays the 4.5% tax or he loses their business. The owner also testified his colleague lost a major client due to the 1987 service tax, forcing him out of business.

An air conditioning repair firm owner argued the Senate tax would force him to pass the new cost on to his customers and to buy expensive accounting services to comply with the new tax.

Finally, the owner of a lawn care provider with three employees argued that the tax would put him out of business. He competes constantly with the "one bucket guys" who are illegitimate businesses not licensed or bonded with the state. The Senate proposal will force him to absorb the tax hike or charge his clients more. Eating the tax will make it impossible to pay all three employees and a passing on the tax will send his customers to the "one bucket guys."

<u>Groups Supporting the Senate Proposal:</u>
One school board member expressed support for Sen. McKay's proposal. He argued it would increase the badly needed resources for education. He pointed out Florida needs more money for education because the state ranks 35th in education spending, 44th in the percentage of public money spent on education, and 49th in per capita spending on education. Finally, teachers pointed out that there are hundreds of thousands of school employees who need the protection of a more stable state budget that is less affected by fiscal downturns.

Two representatives from the AARP expressed their support for the Senate proposal and believe it should be decided by a referendum. They argued that a reduction in the sales tax would benefit all seniors because they will be paying less for tangible goods. Additionally, people who use services should have to contribute to the state coffers because they have the money to afford the services they purchase. Finally, the AARP argued the Senate proposal will reduce the effect of financial downturns on the state, which has a huge impact on seniors who rely on state funded social services.

A representative from a nonprofit substance abuse program believes the Senate plan is a good idea because it stabilizes the state budget from economic downturns. His organization recently experienced a huge decrease in state funding due to the state's budget shortfall. Thus, he supports the Senate proposal because it insulates the state's budget from economic shocks.

Three additional concerned citizens supported the Senate proposal. One expressed support because she recently lost her state job due to budget cuts.

Another person believes the current sales tax system is unfair because it gives service businesses a free ride. He also supported the notion of using a referendum to decide the issue. Finally, a concerned parent felt that the Senate proposal would broaden the tax base, which would result in more funds for education.

Panama City Meeting: (Friday, January 31) (18 opponents / 8 proponents)

In addition to the members on the Select Committee, Representative Bense was in attendance.

Individuals and representatives of the following interest groups testified before the Select Committee:

Construction Sub-Contractors
Commodity Producers (small independent farmers and ranchers)
Real Estate Agents
Education Lobbyists and Individual Teachers
The American Association of Retired Persons ("AARP")
Various Independent Business People
(CPAs, local railroad)
Large Manufacturing Firms
Unions
A Nonprofit Economic Development Group
Other Concerned Citizens

Economists:
Professor Randall Holcombe, *DeVoe Moore Center, Florida State University*
Dr. Henry H. Fishkind, *Fishkind and Associates*

One hundred and twenty people attended the Panama City meeting and twenty-six citizens testified before the Select Committee. Additionally, Professor Randall Holcombe and Dr. Henry H. Fishkind presented their analyses of the Senate proposal to the Select Committee. The description of the public testimony is organized by groups that both support and oppose the Senate proposal.

Opposition to the Senate Proposal:
Construction sub-contractors are extremely concerned that the Senate proposal will add too much paper work and create administrative nightmares. A representative from the Florida Farm Bureau expressed that the Senate proposal risks putting many of Florida's 125,000 farmers out of business. He is worried about the impact of the new freight costs and additional service charges for pest inspections, agriculture consultants, and accounting fees on small commodity producers.

A person representing a local economic development board is concerned that the Senate proposal is occurring at the worst possible time for Florida. He argued the economy is still reeling from the September 11th events, which resulted in many companies looking for new locations that will lower their costs of doing business. He also stated serious concern about the effect of the Senate plan on Panama City's large manufacturing firms. He does not believe that the Senate plan guarantees the exemptions for manufacturing firms because it only talks about the "intent" to exempt manufacturing firms. Finally, he believes the plan does not help the state attract new business and instead encourages the private sector to leave.

Many local realtors expressed outrage with the Senate proposal. They argued the service tax should apply to legislators who provide services to their constituents. Additionally, the proposal creates the need to develop an entirely new bureaucracy for collecting the tax, and the Senate proposal is really a fancy way to raise taxes because the vast majority of Floridians work in the service industry. Several realtors expressed their fear that the state will eventually (6-10 years from now) raise the Senate's proposed 4.5% tax rate back to 6%. Thus the Senate proposal will increase taxes and add hundreds of thousands of new tax filers. Realtors also argue the Senate proposal will increase the closing costs on new homes. Finally, realtors argue the new service charges will have their biggest impact on condominium owners (mostly retirees) who rely more heavily on the service industry than people who live in single-family homes (no explanation provided).

Four CPAs expressed outrage towards the Senate proposal. They felt the proposal resulted in an income tax on their business because they would be unable to pass the 4.5% tax onto their clients. They cannot pass on the tax because people living in North Florida can easily travel to CPAs practicing in Alabama to avoid the new tax. Additionally, one-third of the CPAs' accounts are related to large manufacturing firms that can easily contract with accounting firms outside of Florida. Other CPAs were concerned that they will be unable to successfully lobby the Legislature to reinstate the exemption currently protecting their livelihood. This will occur because most CPAs are small independent businesses that do not have the financial resources to actively pursue legislative changes. Other CPAs expressed their concern with how difficult it is to determine what services are taxed and how to value the services being taxed. Finally, one CPA talked in detail about how the 1987 service tax created tremendous confusion for Department of Revenue employees who could never determine what services were taxed.

The owner of an independent railroad company in Panama City was happy that the latest version of Senate Bill 1106 exempts transportation services. He is concerned with the negative affect of the proposal on the business he relies on for his livelihood. His largest contracts are with the paper mill, asphalt plant, and chemical plant. If they go out of business, so does he.

Representatives from several large manufacturing firms in Panama City expressed their disapproval with the Senate proposal. Representatives from the paper mill estimated the Senate proposal would have a $5-11 million impact on the plant, which would result in the plant being closed. The plant would be closed because its owners would move the plant to Alabama or Georgia where it would be cheaper to produce the same product. Even though the plant has undergone recent cost cutting procedures to remain competitive, 60% of the plant's costs are from transportation. Thus, the Senate proposal would increase the plant's largest operating costs at a time when it can no longer cut corners.

A representative from a large chemical plant pointed out that he is in fierce competition with overseas providers who pay a fraction of the costs for raw materials that he pays. His plant processes raw materials that are shipped to North Florida; the processed materials are then shipped throughout the world. Thus, the Senate proposal would force him to close his plant because of the new taxes on motor freight.

Representatives from various unions believe the Senate proposal is a major mistake and that it will cost Florida numerous high paying manufacturing jobs. They believe the Senate tax gives manufacturing interests everywhere in the world a 4.5% competitive advantage. Another union representative believes the Senate proposed reduction in sales taxes for tourists would not increase tourism as supporters of Senator McKay's plan claim.

A concerned citizen expressed his outrage with the Senate proposal and expressed his belief that the state needs to reduce spending and not increase taxes. He pointed out that he served on the *Statewide Tax Reform Task Force* with Senator McKay and, after two years of testimony, he heard no one testify that the state needed higher taxes, which is what McKay's plan does.

Groups Supporting the Senate Proposal:
One teacher and one school administrator spoke out in favor of the Senate proposal. They believe the current system of funding education in Florida is inadequate because it is largely impacted by downturns in the economy. Additionally, teacher pay is very low, which results in the best and brightest pursuing other career paths. One gentleman pointed out that his son refused to be a teacher because he will never earn the $75,000 a year that a two-year degree in computer networking will provide. A representative of the local PTA pointed out that the recent budget squeeze resulted in millions of dollars being cut from the education budget. Finally, the current system of raising revenue in Florida needs change because it relies heavily on non-recurring funds (Tobacco Money and Money from Florida's State Retirement Fund), which, once used, will be gone forever.

Pensacola Meeting: (Friday, February 1) (43 opponents / 3 proponents)

In addition to the members on the Select Committee, Representatives Benson and Maygarden were in attendance.

Individuals and representatives of the following interest groups testified before the Select Committee:

Coin Laundry Operators
Real Estate Agents
Hospital Associations
Education Lobbyists and Individual Teachers
The American Association of Retired Persons ("AARP")
Various Independent Business People
(CPAs, architects)
Large Manufacturing Firms
Charitable and Religious Institutions
Other Concerned Citizens

Economists:
Professor Randall Holcombe, *DeVoe Moore Center, Florida State University*

Two hundred and two people attended the Pensacola meeting and forty-six people testified before the Select Committee. Additionally, Professor Randall Holcombe presented his analysis of the Senate proposal and answered questions from the Select Committee. The description of the public testimony is organized by groups that both support and oppose the Senate proposal.

Opposition to the Senate's Proposal:
Two coin laundry business owners testified against the Senate proposal. One person who owned a wholesale firm that sells equipment and supplies to coin operated laundries expressed outrage with the Senate proposal because it increases the tax burden of lower income people. A representative from the coin laundry association pointed out that 51% of coin laundries in Florida have gone out of business over the last ten years. Additionally, many coin laundry business are mom and pop shops that will be forced to pass the tax on to their customers because their profit margin is so low.

Seven persons representing real estate interests (local realtors and real estate lobbyists) testified against the Senate proposal. They argue that the Senate proposal increases the closing costs of buying new homes because it increases the costs of: 1) surveys; 2) pest inspections; 3) home inspections; and 4) titles. The owner of a large real estate firm pointed out the combined costs of the Senate proposal on these four services for her 2001 clients would have totaled over $115,000. However, she believes the real effect of the Senate proposal will be much greater on people buying property because it increases the service charges used by the realtors she employees (accounting, legal, and other service costs will rise). Another person pointed out that he became a licensed realtor in 1987 because his publishing company went bankrupt. He remembers that the 1987 service tax cost him $980 in accounting fees in order to pay the 5% sales tax on his bankrupt company. Additionally, he remembers the new closing cost increases added $37 to the first home he sold, but the homebuyer refused to pay the taxes forcing him to pay the $37. Finally, he pointed out that the 1987 service tax had a huge impact on the willingness of people to buy pre-owned homes because it increased the cost of construction sub-contracting.

Many CPAs testified that they believed the Senate proposal was a knee jerk reaction to the current budget shortfall. Thus, they recommended slowing down the process and having the Legislature review the proposal in detail. One CPA surveyed his 67 small business clients and found that 74% of them were opposed to the Senate proposal. He also pointed out that 15% of his clients are not located in Florida. As a result, he cannot pass on the 4.5% cost to these clients because they will seek CPAs located in other states. Another CPA argued the Senate proposal creates a 4.5% personal income tax on service professionals because many service industry firms cannot pass on the tax increase. However, the accountant argued the 4.5% sales taxes would have a much greater impact on his well-being than a 4.5% income tax. Another group of CPAs argued the Senate seriously underestimated who will be paying a larger portion of taxes under the McKay proposal. This group suggests that the Senate's proposal shifts the tax burden to people living on fixed incomes. Finally, most of the CPAs are concerned about the costs of administering the tax for the state. In addition, professional services are required to pay the tax as soon as customers are invoiced, while the invoice may remain outstanding for months.

Several architects testified that the tax would end the architectural consulting business in Florida. They pointed out that roughly 50% of their clients are located outside of the state, which means they either pay the tax or lose clients. However, the biggest problem for architects is that they often use a half dozen consultants on large projects and each of these consultants will be subject to the 4.5% tax. Thus, tax pyramiding is a very real issue for architects and is the reason they believe McKay's plan will force them to leave the state.

A representative from a nearby chemical plant points out that his firm has 220 high paid employees who may lose their jobs if the Senate's plan is passed. He argues that his firm is the largest consumer of natural gas in Northwest Florida, and gas prices increased from $2 to $10 per gallon during the last year. Additionally, his firm is in constant competition from companies throughout the world who pay fifty cents per gallon on natural gas. As a result, his firm has been undergoing 15 months of cost cutting activities and any new taxes will force him to close his plant.

A nationwide refrigerated trucking company argues the Senate proposal will have a major impact on its business because all of the items shipped are subject to resale. Thus, if the tax decreases consumer demands for the products he ships, the demand for his services will decrease. The company spokesman estimated the Senate proposal would raise $300 million on the products it ships. Finally, the trucking company is worried that the business will lose customers to out-of-state, independent truckers who will not pay the taxes on freight.

A representative from a fiber company pointed out that the slowing economy over the last eighteen months resulted in his firm cutting 215 employees. He is afraid the Senate proposal will force him to lay off his remaining 55 employees because Senator McKay's plan increases the cost of shipping and accounting services. The company estimated that the Senate proposal would increase their costs by $200,000 per year.

A representative from Pensacola Christian Academy and College is afraid the Senate proposal will have a huge negative impact on religious and charitable institutions. He estimated that hundreds of their students would be unable to afford tuition, which would result in a massive increase in public school enrollment. His estimates are based on the fact that the Senate proposal increases the institution's service costs and affects the income of their students' parents.

A representative from the Pensacola Chamber of Commerce pointed out that his organization has not expressed its view on the Senate proposal because they are still examining the issue. However, he believes that the Legislature needs to: 1) have adequate time to estimate the affects of the proposal on business; 2) allow small business owners to participate in studying the proposal; and; 3) study how the tax reform proposal will affect job creation in the state.

Many other individuals expressed their opposition to the Senate's plan. One person argued the tax system should be left alone because the current system is effective. Additionally, removing tax exemptions makes Florida less attractive to new businesses. Other citizens expressed their concern that the 4.5% tax reductions would eventually increase to 6% unless the state controls the growth in public spending.

Finally, State Representative Maygarden spoke in opposition to the Senate proposal. He argued that North Florida's lawmakers would not let the Senate President bully them into supporting the proposal like he has done to his Senate colleagues. Additionally, he will fight to make sure the proposal fails because it will hurt Florida's small businesses. Finally, he believes the House of Representatives will review the proposal and will not allow the Senate tax increase to fly through the legislature.

Groups Supporting the Proposal:

Hospital associations support the proposal because it will insulate the state budget from downturns in the economy. A representative from a local hospital argued the recent budget shortfall has a huge negative affect on the elderly and working poor who rely on government funding for their health care needs.

Two educators and one PTA member expressed their support for the Senate proposal. They argued the state's education system is dramatically under funded and believe the state needs to stabilize its budget. They pointed out the state ranks 50th in spending on higher education, 49th on per capita spending, 29th in teacher pay, 38th in per pupil spending, and 43rd in pupil-student ratio. Thus, any shortfalls in revenue will have great negative impact on school children in Florida.

The AARP supports the Senate proposal and favors placing it on the ballot. It believes the plan stabilizes the state budget and feels the current system cannot keep up with Florida's growing social service needs. Finally, it was expressed that Floridians should be allowed to determine the fate of the proposal because Florida's residents pay the vast majority of the state sales tax.

<u>Member Questions to Professor Holcombe:</u>

Representative Maygarden: Is it true that the Senate proposal will shift the tax burden away from tourists and onto Floridian's?

Professor Holcombe: Yes Sir. The Senate proposal will shift roughly $334 million which is currently paid by tourists onto Floridians.

Representative Negron: Dr. Fishkind said the proposal raises more revenues than the current tax structure, suggesting it increases taxes; yet Senator McKay argues his proposal is revenue neutral, meaning it will not raise taxes. Professor Holcombe, which assertion do you believe to be true?

Professor Holcombe: Sir, the Senate's own estimates show that revenues will increase in the first two years of the plan, which is why the Legislature can amend the plan during its first two years. Additionally, the plan is intended to be revenue neutral and it decreases the amount of taxes paid by tourists. This means Florida's taxpayers pay more to make up for the revenues lost from tourists.

Representative Mayfield: What will the compliance costs be on small businesses?

Professor Holcombe: The 1987 service tax added 300,000 new tax filers. There is no study I am aware of that estimates compliance costs on Florida's businesses. However, Washington State has a service tax, and they estimate it costs a business filer $1,200 per year. If you multiply this cost by 300,000 new filers, the estimated compliance cost on Florida's small businesses is $360 million.

Representative Bowen: How will having three different tax rates (1.5%, 4.5%, and 6%) impact the Florida Department of Revenue?

Professor Holcombe: Ma'am, I really do not know. However, it is worth noting that the Department of Revenue will be affected in at least two ways. First, the Senate proposal adds roughly 300,000 new filers. Second, having three different tax rates will create enforcement issues because filers may not know what rate to pay or even be aware that their business is now subject to the sales tax.

Representative Peterman: How will the tax proposal be implemented to avoid tax pyramiding?

Professor Holcombe: Great point; tax pyramiding means taxes are passed on from one business transaction to another. The problem with tax pyramiding is that it is easier for some businesses to avoid than other businesses. I do not know how tax pyramiding will be avoided.

Representative Goodlette: The Senate argues its proposal will reduce general sales tax revenue by $4 billion, which is offset by the new sales tax on services. Can you verify its estimates?

Professor Holcombe: Sir, I have not verified the Senate numbers; however, the House Fiscal Policy and Resources Committee projects the Senate estimates are valid.

Representative Melvin: How will the Senate proposal impact North Florida?

Professor Holcombe: The Senate's proposal will affect taxpayers throughout the state. However, the impact will be worse on North Florida because it creates a 4.5% competitive disadvantage for North Florida services against their competitors in Georgia and Alabama.

Miami Meeting (Thursday, February 07) (25 opponents / 3 proponents)

In addition to the members on the Select Committee, Representatives Cantens and Fasano were in attendance.

Individuals and representatives of the following interest groups testified before the Select Committee:

Coin Laundry Business

Real Estate Agents
Student Lobbyists from Florida International University
The American Association of Retired Persons ("AARP")
Various Independent Business People (CPAs, a business development firm, a consulting firm, and library management consultant who also represented the National Association of Women's Business Owners)
Other Concerned Citizens

One hundred and fifty-four people attended the Miami meeting. The description of the public testimony is organized by groups that both support and oppose the Senate proposal.

Opposition to the Senate Proposal:
A representative of the coin laundry association is extremely concerned about the fairness of the Senate proposal. He points out that the Senate proposal does not tax yacht repairs and the sale of gold bullion, which are services used by the wealthy. Yet, the proposal taxes coin laundry services that are used by people living on fixed incomes (i.e., students, retirees, poor Floridians) who cannot afford to absorb any more financial burdens. Additionally, many people using coin laundry services want to buy their own washers and dryers but are financially unable to do so. Finally, he expressed the coin laundry association's opposition to placing the tax reform issue on the ballot because most voters are uneducated about or unaware of the effects of the Senate proposal.

Four realtors testified before the Select Committee and expressed their opposition toward the Senate proposal. One man, a second generation realtor in Florida, believes the Senate proposal will tax residential rents. He estimates the 4.5% sales tax will increase the rent paid on a $700-per-month apartment to $731.59 (this includes Miami's 1% sales tax increase). Additionally, he argues only three states tax services: Hawaii, New Mexico, and Washington. Other than Boeing and Microsoft, he is hard pressed to find any large businesses that have moved into these states. The realtor argued another problem with the Senate proposal is that the 4.5% rate is the base rate and that local sales taxes (1/2% transportation rate in Miami, existing local option taxes, and school board taxes) need to be added on, which will increase the sales tax in Miami to 6.5% on services.

Another realtor believed the Senate proposal is a state income tax for some businesses but not other businesses. Additionally, the real estate industry is concerned about the effect of the Senate proposal on housing prices, which will increase closing costs on new homes and raise the costs of homeowners insurance. As a result, many people in Southeast Florida will be priced out of the housing market because the premiums on homeowners insurance will continue to rise. Realtors pointed out that consumers and businesses consider costs when purchasing big ticket items. People will often leave municipal areas and purchase big ticket items in unincorporated areas where the sale tax burden is less. Finally, many realtors earn less money than people believe—some earn only $15,000 per year. Any tax increase on the purchase of property will affect the commission of all realtors, even if they earn as little as $15,000 per year.

A representative from the Dade County FICPA chapter is concerned consumers will be responsible for failing to pay the tax, even if service providers do not know they have to ask for the tax (i.e., boy who cuts lawn). Ninety percent of CPAs are opposed to the Senate proposal because it is an administrative nightmare for all Floridians and many small business owners. CPAs who lived through the 1987 service tax believed the tax was a disaster because it was so difficult to comprehend and it forced them to raise their fees. Also, when the Internal Revenue Service makes tax changes, compliance drops because people do not understand the new tax structures—this is exactly what happened in 1987.

Other CPAs felt the problem with the Senate proposal is that it encourages large companies to locate and purchase services outside of the state. This will have a terrible effect on small business in Florida, the end result being job loss. They believe the Senate's proposal is not revenue neutral and that it shifts the tax burden from tourists to Florida residents. Many CPA clients are small to medium retail and wholesale businesses struggling to survive and the added tax increase will be detrimental to their clients' survival.

Finally, CPAs who represent fashion and motion picture industry clients believe the tax will have an enormous negative impact on Florida's ability to compete for these industries with other states and countries. This will greatly impact South Florida because many producers travel to Miami Beach where they employ many local people. Also, one CPA argued many large accounting firms in South Florida have international business clients who seek the counsel of American accounting firms to guide their capital transactions in this country. Thus, one affect of implementing the Senate's tax proposal is that it will result in international firms moving their businesses to other states.

Three people representing different independent businesses spoke out against the Senate proposal. The owner of a small business development firm argues he has a unique perspective on the Senate proposal because he assists people buying and selling small businesses. He believes the average small business owner is currently overwhelmed with local, state, and federal regulations. Thus, the Senate proposal increases the risks and reduces the rewards of creating small businesses in Florida. This is particularly true because the proposal may be revenue neutral for the state, but it dramatically increases the administration costs on small businesses.

The owner of a small business consulting firm opposes the Senate proposal because it will create an undue burden on her clients. Additionally, she is opposed to the Senate proposal's use of a referendum for passing the tax.

Finally, the owner of a library management business that assists attorneys with their research needs is against the proposal because it will increase the costs of conducting business. She also represents the National Association of Women Business Owners in Florida and her members are also opposed to the Senate's proposal and its use of the referendum process.

Two representatives of the student accounting association at Florida International University pointed out that most accounting jobs are not located in Florida. They argue their opportunities are greater outside of Florida, which is unfortunate because they want to stay in Florida. Thus, the Senate's proposal makes it less likely for new CPAs to find work in Florida because it forces the "Big Five" accounting firms to leave the state.

One concerned citizen spoke out against the Senate proposal because he does not believe the current system is broken. Additionally, this gentleman was a past chair of the Greater Miami Chamber of Commerce. He believes the Senate's proposal will put the state at a 4.5% competitive disadvantage with other states for job creation. Further, he is an accountant who already pays a great deal of sales tax. He argues that passing a service tax will result in consumers paying more because businesses pass the tax on to their customers. Finally, tourists take advantage of the roads, water services, and other infrastructure services paid for by Florida's sales taxes, which is why tourists should pay their fair share.

Another person expressed his opposition to the plan because it is not a practical solution to the state's financial problems. He feels it creates too much confusion to implement the tax. Another citizen expressed his opposition because the Senate proposal lowers the sales tax paid by tourists and increases the tax burden on Floridians. Finally, a Cuban immigrant expressed his fear that many lower income people will not be able to purchase the services they need to survive.

Groups Supporting the Senate Proposal

The AARP supports the Senate proposal because the current sales tax structure is inadequate, regressive, and subject to changes in the state's economic condition. When things are good the state is in great shape, but when things are bad there are serious budget problems. The AARP believes the existing system is based on the inequality of taxing the sale of tangible goods but not services. Finally, the AARP supports the idea of allowing voters to decide the issue.

A representative from a local hospital believes the Senate proposal is a good idea because it lowers the sales tax rate in Florida. He believes the Senate proposal should lower the sales tax rate to 3% on goods and services because it will reduce the confusion of the current proposal. Another citizen testified in support of the proposal because he felt the state needed a new way of conducting business and believes the state budget cannot continue to be so dependent upon tourism. Last, a concerned mother spoke out in support of the

Senate's plan because it reduces the sales tax paid by all people; this includes consumers who utilize the businesses speaking out against the proposal.

Jacksonville Meeting: (Friday, February 8) (68 opponents / 2 proponents)

In addition to the members of the Select Committee, Representative Kravitz and Senator Steve Wise were in attendance.

Individuals and representatives of the following interest groups testified before the Select Committee:

Realtors
Coin Laundry Owners
Local Government
Various Independent Business People
(C.P.A.s', a business development firm, marine supply companies, an employment agency, and Insurance agents)
Education
American Association of Retired Persons ("AARP")
Health/Hospital Associations
Transportation Businesses
Large Manufacturing Firms
(paper mills, a ship builder, and a Georgia Pacific representative)
Unions
Other Concerned Citizens

Two hundred and fifty people attended the Jacksonville meeting and seventy people testified before the Select Committee. The description of the public testimony is organized by groups that both support and oppose the Senate proposal.

<u>Opposition to the Senate Proposal:</u>
Two representatives from the coin laundry industry argue that the tax is unfair because it forces lower income people to pay more of the state's tax burden. Additionally, coin laundry operators in 1986 realized that their machines could not charge consumers an additional five cents so they had to increase their rates by a quarter. The Senate proposal repeals the sales tax exemption for some services but not all services (e.g., Senator Holzendorf's exemption for beauty parlors), thus it is not fair.

Realtors testified against the Senate proposal. One realtor, who specializes in helping lower income people buy homes, believes the Senate proposal will make it much more difficult for lower income people to buy new homes. A past president of a local realtors' association argued the Senate proposal should not be a part of the state constitution because it would make it extremely difficult to amend. Another realtor stated the service tax of 1987 was a "nightmare." He feels strongly that the Senate proposal will create the same tyranny of paperwork and bureaucracy that the 1987 tax created. Several realtors pointed out that working with the Florida Department of Revenue is more challenging than working with the Internal Revenue Service.

A representative of the Florida Association of Realtors believes the Senate proposal will have a much greater affect on new home construction than home re-sale. Additionally, he argued the tax is regressive because it hurts lower income people who will be priced out of the new home market. Another realtor expressed his opposition to the bill because it was a bad idea in 1986 and is still a bad idea today. He believes it will increase the costs of listing properties, using janitorial services, photocopying, security monitoring, lawn services, and other services. Realtors estimate the cost of buying the average priced new home will increase $469. The National Association of Realtors suggests that for every $1,000 increase in the price of homes, an additional 1,800 people are priced out of the home buying market. This means the Senate proposal will price out 9,800 potential home buyers in Florida.

Realtors who experienced the 1987 service tax argue it was a horrible way of doing business because the Florida Department of Revenue was unable to determine what services were and were not taxed. The 1986 tax on services created chaos for consumers using service industries such as the real estate business because it added costs to all kinds of services. Additionally, tax pyramiding will be massive in the construction of new homes and the re-sale of homes. Finally, realtors question how the Florida Department of Revenue will collect the tax: Will all new filers be given a tax identification number?

Six different CPAs expressed their disproval of the Senate proposal. One CPA working for county government opposed the proposal because the Department of Revenue does not have the staffing resources needed to administer the tax. He pointed out that Jacksonville (Duval County) asked the state to audit the collection rates for the local option gas tax but the Florida Department of Revenue declined because it lacked the staff to do so.

Other CPAs are concerned the Senate proposal is not revenue neutral and creates serious tax pyramiding, suggesting that the Senate proposal is actually a tax increase. Accountants are concerned the Senate proposal does not offer any assurances that the plan will save clients money. Additionally, CPAs worry it is a mistake to use a referendum to decide the tax proposal because voters will simply support the measure because it lowers the sales tax by 1.5%, even if it actually increases their overall taxes. Further, the Senate proposal requires CPAs to pay the sales tax when they bill their clients, which equates to a CPA income tax. Finally, several CPAs said they would rather deal with an Internal Revenue Service audit than an audit by the Florida Department of Revenue because Florida's tax laws are so complicated.

Ten different small business owners testified before the Select Committee. The owners expressed concern that the Senate proposal would put them out of business because their insurance premiums continue to increase. Marine supply companies are opposed to the Senate proposal because the plan will increase the cost of importing products into Jacksonville, which is the second busiest port of entry for foreign made automobiles in the United States. The result of the Senate proposal's increase on shipping costs will force automakers to import their vehicles into Georgia.

The owner of a business development firm is concerned that her clients have too few employees to comply with the various taxes being proposed by the Senate plan. Additionally, she believes the Senate proposal will have its biggest impact on the startup of new businesses, which rely heavily on attorney services for opening their doors. An employment agency argued the Senate proposal will increase the staffing costs for small businesses that rely on their services to survive.

The owner of a lawn care business that employees 50 people is worried that the Senate proposal will force him to get out of business. This will happen because he competes with lawn care providers, which are often unlicensed and do not pay workers compensation. Insurance agents believe the proposal is unfair because it will increase the costs of insurance premiums. This will happen because agents will pass on the service tax to their policyholders. Finally, the owner of a service business believes the Senate proposal will reduce her taxes. However, she is concerned because her business was broadsided by the 1987 service tax and the tax on custodial and security services created in 1992.

A member of the Jacksonville/Duval County Council argued the proposal creates a huge tax shift from tourists to Floridians. Additionally, local governments are worried about the proposal's reduction in ad valorem taxes, which are the largest source of revenue for many local governments.

Four different people associated with Smurfit Stone and Container paper mill expressed their opposition to the Senate proposal. They pointed out that their mill is the only paper mill left in Jacksonville because of the stiff international and intrastate competition. Management from the mill pointed out that 3,000 Floridians who work in the company's eighteen operations across the state would lose their jobs if the Senate proposal were enacted.

A representative from a Jacksonville shipbuilding and repair business expressed opposition to the Senate proposal. He pointed out that his firm builds $40-50 million vessels, and that all of the raw materials they use are subject to the Senate's freight tax. Finally, his firm cannot pass the tax on to his customers because of competition from ship builders in Alabama and Georgia.

The Chief Executive Officer of Landstar stated that he would relocate his business once again if the Senate proposal passes. His firm provides $1.5 billion in trucking services a year, and he is not willing to pass any new taxes on to his constituents. Additionally, the Senate proposal is unfair because it taxes interstate commerce and the interstate commissions of his agents. Finally, the effect of taxing transportation is to raise the costs of all services because so much of the American economy relies on freight.

A representative from Georgia Pacific spoke out against the Senate proposal because of its negative impact on Florida's rural communities. The Senate proposal is estimated to increase the cost of motor freight for Georgia Pacific by $600,000 a year.

The manager of an international cosmetics and personal health care company points out that his plant competes with his company's four other manufacturing plants. Currently, his factory is "pennies away" from going under because it competes with his company's European and Mexican factories that benefit from cheap labor and favorable exchange rates. Therefore, the imposition of the Senate tax increase will put his plant out of business.

Four different people associated with transportation-related groups expressed their opposition to the Senate proposal. The Executive Director of Jacksonville Marine Transportation Exchange believes the Senate proposal will increase the cost of shipping cargo into the port of Jacksonville resulting in goods being shipped to Georgia. The owners of two freight companies expressed their concern about the effect of Senate tax increase on the state's economy. They pointed out that the Senate proposal would increase the cost of shipping a truckload of goods from Jacksonville to Key West by $40. Representatives of the transportation industry stated that all goods, including fuel, groceries, bottled water, recycled paper, and construction supplies, are shipped around the state by commercial truckers. Thus, taxing their service would affect the price of most goods in Florida.

Three different union representatives spoke out against the Senate plan. The industrial service workers union believed the proposal is bad for paper mills and will force the mills in Jacksonville and Panama City out of business. The machine and electrician workers union argued that the Senate plan would result in the loss of high paying manufacturing jobs throughout the state. They also argued that the current tax exemptions exist to help business and ultimately benefit workers in the state. The union representatives also stated that the closing of Jacksonville's paper mill would eliminate 150 tax paying and auto buying citizens; this in turn would hurt business throughout the area.

A former member of the Florida House of Representatives and lobbyist for Florida Coastal School of Law expressed that his organization was not for or against the Senate Proposal. He represents a for profit law school that does not rely on the state for financial support. The school operates on the tuition paid for by its students, tuition that Senate staffers argue will not be taxed under the proposal. However, the Senate proposal will increase the costs of living on his students who exist on tight budgets.

Five different people not associated with any specific interest group spoke out in opposition to the Senate proposal. One person believed the Senate's proposal was designed to reduce the responsibility of the Legislature. He argued the Senate plan would free legislators from having the responsibility of balancing revenues and expenses because their hands will be tied by the constitutional amendment needed to pass the proposal. Another person believed tax reform issues should not be decided by referendum and he feels the Senate proposal is a "knee jerk" reaction to the current budget situation. One person believed the Senate proposal would hurt the state because it discourages businesses from locating in the state. Finally, one person argued the Senate proposal will raise the costs of education by increasing the service costs paid by parents.

<u>Groups that Support the Proposal:</u>
Two different speakers representing the AARP supported the Senate proposal. They applauded Senate President McKay for taking a leadership role in reforming Florida's tax structure. The AARP believes that lowering the state sales tax while broadening the state's revenue base will safeguard Florida's future. They also support allowing the voters to decide the future of the state's tax structure. One member of the AARP explained how he recently bought a new car but had to reapply for his car loan because he forgot to include the 6% sales tax in the total amount of his auto loan. The man then explained that the Senate Proposal would have saved him over $400 if the plan had been in effect when he bought his car. Finally, the AARP believes the Senate proposal insulates the state budget from economic downturns that result in budget reductions.

Tallahassee Meeting: (Monday, February 11)

The following individuals and interest group testified before the Select Committee:

Dominic Calabro, *Florida Tax Watch*

<u>Economists</u>
Dr. Henry H. Fishkind, *Fishkind and Associates*
Professor Randall Holcombe, *DeVoe Moore Center, Florida State University*

The Select Committee heard testimony from Dr. Henry H. Fishkind and Professor Randal Holcombe. After the presentations the economists were asked questions about the Senate proposal.

<u>Questions Asked to Dr. Fishkind:</u>
Chairman Byrd: *What is the overall goal of this proposal?*

Dr. Fishkind: The overall goal is to broaden the sales tax base and provide future protection from future sales tax increases.

Chairman Byrd: By broadening the base, does this have implications on the economic cycle?

Dr. Fishkind: Yes, Sir. If the base of things that are taxed is somewhat broader and includes services, the resulting revenue streams will be less volatile because the purchase of service is less volatile.

Chairman Byrd: Did any consideration of state reserves come in to the consideration of your plan?

Dr. FishKind: No, Sir.

Chairman Byrd: If one of the goals is to deal with the economic cycle, is broadening the sales tax base the best and primary way that one would deal with the effects of the economic cycle?

Dr. Fishkind: I think it is a significant way of dealing with the affects of the economic cycle. Reserves are also another way to deal with the economic cycle. The two methods are complimentary.

Chairman Byrd: The state has a revenue stream and over the last two decades, the stream of revenue has never gone negative – it has always been increasing. Is this true?

Dr. Fishkind: Yes, Sir.

Chairman Byrd: We have never had a situation when revenue streams were negative in comparison to the previous year?

Dr. Fishkind: Yes, that is true.

Chairman Byrd: Even with 9/11 and its negative impact on the economic cycle, the streams of revenue were actually increasing.

Dr. Fishkind: In terms of total dollars, that is correct.

Chairman Byrd: If one of the goals is to deal with the economic cycle when we hit economic slow downs, wouldn't reserves be a better way to deal with the economic cycle?

Dr. Fishkind: I'm not sure, but the sales tax reform proposal is not really designed to deal with the economic cycle.

Chairman Byrd: That is an excellent point. So this program does very little to protect the state from economic slowdowns?

Dr. Fishkind: That is correct. This program does very little to protect the state from economic slowdowns.

Chairman Byrd: So this program does very little to protect the state from economic slowdowns. The rent seekers dependent on government programs will not be protected from future economic slow downs if the Senate proposal passes.

Dr. Fishkind: That is correct. It is not designed to do that. It is designed to take care of the long-run needs of the state.

Chairman Byrd: So that was not an inherent part of the original goals of the Senate proposal?

Dr. Fishkind: No, that was not an inherent part of the original goals.

Chairman Byrd: As an economist do you think it would be good to increase reserves to cope with economic downturns?

Dr. Fishkind: I do think it would be good to protect the state from future downturns. But there are practical and political limitations to how much money can be put in reserves for protecting the state from future economic downturns.

Chairman Byrd: What was the genesis of making the plan revenue neutral?

Dr. Fishkind: Senator McKay's decision to make the plan revenue neutral was based on political considerations. Additionally, he was concerned with making the system stable over the long run – reduce future sales tax increases.

Chairman Byrd: You keep speaking about passing the tax on. Who is the tax passing on to?

Dr. Fishkind: The end buyer.

Chairman Byrd: Have you made any calculations about which end buyers will be paying the new taxes, and how much they will be paying?

Dr. Fishkind: No Sir, I do not know if anyone can accurately determine who the end buyers will be.

Chairman Byrd: If the Senate proposal passes on the costs to lower income people, isn't the plan regressive?

Dr. Fishkind: Only if you expect lower income people to pay a greater percentage of the tax burden.

Chairman Byrd: I'm really concerned about the effect of this plan on lower income families. Will the plan absorb the savings of lower income families?

Dr. Fishkind: Yes Sir. But it is unlikely that this plan will eat up all of the savings of lower income families because they do not purchase most of the services that the proposal taxes.

Representative Bowen: Do you know what the effect of the transportation tax will be on agriculture?

Dr. Fishkind: No. We have not estimated the impact of the transportation tax on agriculture.

Representative Goodlette: One aspect of the Governor's letter you do not address is the component of the $4 billion shortfall. The University of Tennessee's study about Internet sales does not hold up well. Can you address this issue?

Dr. Fishkind: This proposal does not affect Internet sales and was not designed to address this issue.

Representative Goodlette: Are there other states that have as broad a tax base as Florida, and how stable are the revenues in those states?

Dr. Fishkind: Yes, Sir. The revenue system of Texas is based on a broad based sales tax like Florida, and their revenues are more stable than states like California and Massachusetts that rely on personal income taxes.

Representative Kendrick: What effect will this tax have on the competitiveness of trucking industries?

Dr. Fishkind: The tax would have an effect on all trucking services, regardless of where the truck originates. All trucking services will be taxed for the Florida portion of the trip.

Representative Kyle: How many businesses are going to be drug in under this tax plan?

Dr. Fishkind: The number of new businesses will be somewhere around 300,000 –400,000.

Representative Kyle: Have you spoken to the current Department of Revenue Secretary to determine the effect of the Senate proposal on their Department?

Dr. Fishkind: They suspect the effect will not be that great.

Representative Kyle: What kind of businesses besides transportation will be affected by tax pyramiding?

Dr. Fishkind: Very few industries will be impacted by tax pyramiding. The biggest impact will be on transportation and possibly on accounting and business service firms.

Representative Kyle: Do we have a list of all the services that will be affected by tax pyramiding?

Dr. Fishkind: In general, the impact of tax pyramiding will be limited to transportation businesses and possibly financial accounting firms and law firms.

Representative Machek: What will the effect of this plan be on the transportation and trucking industries in North Florida?

Dr. Fishkind: It will not matter where the truckers come from, they will all have to pay the service tax. Thus, I do not think it will negatively affect trucking in Florida.

Representative Mayfield: Do you know how much new revenue the Senate plan will collect, and from which businesses?

Dr. Fishkind: We estimated that the Senate plan will collect around $4.2 billion dollars, and I can provide you with a spreadsheet explaining which businesses will be taxed.

Representative Mayfield: How will manufacturing plants compete with plants in neighboring states that will be put at a 4.5% competitive disadvantage?

Dr. Fishkind: Sir, the current Senate proposal keeps the exemption for paper mills in terms of the transportation tax.

Representative Negron: Is this plan revenue neutral, or does it increase or decrease revenues?

Dr. Fishkind: The plan does not increase taxes, but after the first year it will increase revenues. It will be up to the Legislature to determine if they will add or remove sales tax exemptions.

Representative Negron: So after the first year would you say this is a tax increase because it collects more revenues than the current system?

Dr. Fishkind: No, the plan is not a tax increase, but after the first year the Senate proposal will generate more revenue.

Representative Negron: How is this not a tax increase if the state of Florida will be raising more revenues after the first year?

Dr. Fishkind: The plan is not a tax increase. It does collect more revenue but it also lowers the sales tax paid by Floridians and the businesses paying the new service taxes.

Representative Negron: Would you agree that the changes made on the original Senate bill and the changes made on the Senate floor affect the conclusions of your original report?

Dr. Fishkind: No, the implementation plan has changed, and my analysis of the changes shows that my original conclusions are valid.

Representative Waters: Do you have any predictions about the impact of the Senate plan on small businesses?

Dr. Fishkind: Yes, it will give them a competitive advantage because it will reduce their sales taxes. In particular, it will reduce the sales tax on restaurants and retailers. However, the Senate proposal may create a competitive disadvantage for businesses that rely heavily on transportation such as agriculture.

Questions Asked to Professor Holcombe:

Chairman Byrd: One of the questions I have is why this proposal came about. It appears that this proposal will have very little effect on protecting the state from economic slowdowns. Is this correct?

Professor Holcombe: Yes.

Chairman Byrd: Another question I have about this plan is whether or not the government needs to collect more taxes. This is a broad philosophical question. Do you know what the state domestic product is?

Professor Holcombe: around $500 billion.

Chairman Byrd: Philosophically, this is really about how much money will be taken from the private sector and given to the state? Is this correct?

Professor Holcombe: That is correct. This is about how much money the state extracts from the private sector.

Chairman Byrd: Is the rate of money being extracted by government from the private sector increasing at a rate higher than the growth of personal income?

Professor Holcombe. Yes, after you control for inflation and growth in personal income the tax rate is increasing at a rate higher than the growth in personal income.

Chairman Byrd: The best way to cope with economic slow downs is by adopting better fiscal practices in good times. In other words using budget stabilization methods.

Professor Holcombe: That is correct.

Representative Byrd: So those concerned about budget reductions should look at methods such as reserve funds to prevent problems in the future?

Professor Holcombe: Yes. Budget stabilization methods would be the best way to protect hospitals and education in the future.

Representative Bowen: Does this place a black stamp on attracting industries that are beneficial to Florida?

Professor Holcombe: I do think this will make the state less competitive. One thing we need to consider are big accounts for professional services. Most large accounts are multi-state businesses meaning these firms can choose where they undertake their businesses.

Representative Goodlette: Is the reason why revenue collections in Florida have kept up with the growth of government because of increases in the sales tax?

Professor Holcombe: In the 1980s the sales tax base decreased, but in the 1990s there was an increase in the state's sales tax base. Thus, based on what happened in the 1990s, it appears as if revenue collection kept pace with government spending because of growth in consumer spending. Additionally, various components of consumer spending have changed throughout time. In the 1950s Floridians spent 30% of their income on groceries, but now people spend 8%. This suggests increasing the tax base will not increase revenues.

Representative Goodlette: Dr. Fishkind has argued we have four options: increase taxes, broaden the base, reduce spending, or cut programs.

Professor Holcombe: I think we can stick with the status quo because revenues are keeping pace with economic growth.

Representative Kendrick: What would your thoughts be on long-term programs to reduce the costs of taxes on business?

Professor Holcombe: That is a good question. The problem with the sales tax is that it is really difficult to evaluate exemptions because there is no coherent tax philosophy.

Representative Machek: What do you feel about this going to the voters as a Constitutional Amendment?

Professor Holcombe: That is a political question. However, if the proposal becomes a Constitutional Amendment it will be very difficult to fix any problems with the plan.

Representative Machek: What effect will this tax have on business profit margins?

Professor Holcombe: I do not know.

Representative Machek: Will this create a 9/11 situation for agriculture?

Professor Holcombe: Agriculture will be negatively impacted by the Senate plan, particularly the taxes on transportation.

Representative Mayfield: Would groceries increase due to tax pyramiding?

Professor Holcombe: Yes, groceries would increase in cost due to tax pyramiding and freight taxes.

Representative Mayfield: What would the cost of compliance be on Florida's businesses to abide by the new taxes?

Professor Holcombe: I am not aware of any studies on the cost of complying on Florida's businesses. However, the average compliance costs in the state of Washington for its service tax is around $1,200 a year per business. Dr. Fishkind estimated that there would be about 350,000 to 400,000 new business filers. If I multiply this out it means that the cost of compliance on new business filers will be around $400 million. One disgusting thing about the proposal is it creates $400 million in compliance costs even though it is revenue neutral. Additionally, its biggest impact will be on really small business and individual entrepreneurs.

Representative Mayfield: Have you done any analysis on the effect of the Senate proposal on businesses in Florida?

Professor Holcombe: No, the House Fiscal Policy and Resource committee has analyzed the issue.

Representative Negron: After the first year the Senate plan will increase revenues. Do you believe this is a tax increase?

Professor Holcombe: Yes.

Representative Waters: Are tips going to be taxed?

Professor Holcombe: I do not know, and Dr. Fishkind says no.

<u>Florida Tax Watch:</u>
Florida Tax Watch opposes the Senate proposal and believes it suffers from serious tax pyramiding. Additionally, the Senate tax proposal will create either a revenue shortfall or a tax increase, which are both detrimental to the state. Finally, there is no consensus estimate on what the impact of the Senate proposal will be on Florida's business climate. As a result, no one really knows what the effect of the Senate plan will be.

<u>Question Asked to Dominic Calabro:</u>
Representative Goodlette: One thing we have not touched on is the 1987 service tax, which was not designed to be revenue neutral. How did this affect the state?

Dominic Calabro: You are correct, Representative Goodlette, the 1987 tax was planned to increase revenues. It created a ton of tax pyramiding. It also put the taxpayers under the gun because it forced the businesses being taxed to plead their case why they should keep their exemption. The Senate proposal does the same thing as the 1987 service taxes, but it requires a 60% vote to change the sales tax structure because it will be implemented by a Constitutional Amendment.

Representative Kyle: Do you know if there is any language to exclude tips?

Dominic Calabro: If you use the implementing language in Senate Bill 1106, then tips would be taxed. If you use the language in the joint resolution tips would most likely not be taxed. If you do tax tips, then it will appear to be an income tax that may not be constitutional.

Representative Negron: Can you comment on the idea that the plan is revenue neutral?

Dominic Calabro: I believe that it is not revenue neutral. At this time there are no consensus estimates about the effect of the Senate proposal on revenue collection. We suspect the Senate proposal will create a billion dollar revenue shortfall or surplus, but we cannot be sure

Representative Mayfield: You are estimating the Senate proposal will have a 1% - 3% shortfall or increase in state's revenue collection?

Dominic Calabro: Yes. But we do not have a good database to estimate how much money will be collected if the plan is adopted. The state never collects all money owed to it by legal business transactions and the proposal creates a tax shift by reducing the taxes on tourists and households, The tax shift occurs because the proposal is revenue neutral, and it makes up for lost revenue by increasing the tax on small businesses. We estimate the tax shift to be around $1.2 billion.

APPENDIX B

Appendix B

Senate Plan

Summary of CS/SJR 938

The Committee Substitute for Senate Joint Resolution 938 (SJR) creates Section 19 of Article VII of the State Constitution, reducing the general sales and use tax rate to 4.5% and broadening the state sales tax base.[1]

If the voters approve the amendment in the November 2002 General Election, effective July 1, 2004, it would:

1) Reduce the sales tax on all goods currently taxed, from 6% to 4.5%.

2) Require any increase in the rate above 4.5% to be enacted by a three-fifths vote of the membership of each house of the Legislature. However, the sales and use tax rate for transient rentals, admissions, and rental cars, as defined by general law, shall be subject to tax at the rate prescribed by general law.[2]

3) Provide that all sales of goods and services, as defined by general law, are subject to the general state sales and use tax, with the exception of:[3]

   - Sales of groceries, health services, prescription drugs, and residential rent, as defined by general law;
   - Exemptions enacted by the Legislature on or after January 1, 2002, and before July 1, 2004; and,
   - Exemptions enacted by the Legislature on or after July 1, 2004, by a three-fifths vote of the membership of each house of the Legislature in a general law that embraces no subject other than the singular exemption granted.

4) Require the Legislature to repeal the health care assessments found in ss. 395.701 and 395.7015, F.S., by July 1, 2005.[4]

5) Require that the general state sales and use tax revenues generated for state fiscal year 2004-2005, as estimated by the Revenue Estimating Conference, will be no more than the amount of general state sales and use tax revenues collected during the prior state fiscal year, adjusted by the average rate of

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[1] Staff analysis of Senate Committee on Finance and Tax and Rules and Calendar, January 25, 2002, at 4.
[2] *Id.*

[3] *Id.*

[4] *Id.* at 5.

growth in general state sales and use tax revenues over the past five state fiscal years.[5]

6) Require the Legislature to enact general law, effective July 1, 2004, to implement the tax reform in the SJR, as well as to ensure revenue neutrality.

7) Reduce ad valorem taxes or other local taxes or fees as provided by general law with increased local government sales surtaxes realized as a result of legislative changes necessary to implement this act.[6]

8) Except from the definition of "sales of goods and services" sales of tangible personal property purchased for resale or imported, produced, or manufactured in Florida for export; sales of real property; sales of intangible personal property; payment of employee salaries and benefits; and sales of communications services.[7]

Summary of CS/CS/SB 1106 (as amended)

The Committee Substitute for Committee Substitute for SB 1106, as amended, implements the tax reforms proposed in the Committee Substitute for SJR 938. Contingent on the passage of CS/SJR 938 by the voters in the November 2002 general election, it would, effective July 1, 2004:

1) Reduce the state sales tax rate from 6% to 4.5% on all taxable goods, except for the sales tax rate on transient rentals (s. 212.03, F.S.), admissions (s. 212.04, F.S.) and rental cars (s. 212.05(1)(c), F.S.), which remains at 6%.[8]

2) Impose a 4.5% state sales and use tax on services, as defined by general law, except for the following services:[9]

   - Services by General Physicians (SIC Industry Group Number 801)
   - Services by Dentists (SIC Industry Group Number 802)
   - Services by Osteopathic Physicians (SIC Industry Group Number 803)
   - Services by Chiropractors, Optometrists and Other Health Practitioners (SIC Industry Group Number 804)
   - Nursing and Personal Care Facilities Services (SIC Industry Group Number 805)

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[5] *Id.* at 4.

[6] *Id.* at 5.

[7] *Id.*

[8] Staff analysis of Senate Committee on Finance and Tax and Rules and Calendar, January 29, 2002, at 4.

[9] *Id.* at 4-5.

- Hospital Services (SIC Industry Group Number 806)
- Medical and Dental Laboratory Services (SIC Industry Group Number 807)
- Outpatient Care Facility Services (SIC Industry Group Number 808)
- Other Health and Allied Services (SIC Industry Group Number 809)
- Agricultural Services (SIC Major Group Number 07)
- Forestry Services (SIC Industry Group Number 085)
- Services by Real Estate Agents (SIC Industry Group Number 653)
- Insurance Agents and Brokers Services (SIC Major Group Number 64)
- Services between members of an affiliated group of corporations as defined in [s. 212.02]
- Money Lending by Banks (SIC Major Group Number 60)
- Money Lending by Non-bank Financial Institutions (SIC Major Group Number 61)
- Security and Commodity Brokers Services (SIC Major Group Number 62)
- Services by Insurance Carriers (SIC Major Group Number 63)
- Publishing and Printing – Newspaper, Periodical and Miscellaneous Advertising (SIC Industry Group Numbers 271 – 274)
- Radio and Television Broadcasting – Advertising (SIC Industry Group Number 483)
- Satellite Up-Link, Down-Link and Miscellaneous Communications Services (SIC Industry Group Numbers 481 – 484)
- Newspaper Delivery by Independent Carriers (SIC Industry Number 5963)
- Services by Advertising Agencies & Advertising Representatives (SIC Industry Numbers 7311 and 7313)
- News and Feature Syndicates (SIC Industry Number 7383)
- Sewage and Garbage Collection Services and Utility Hook-ups (SIC Major Group Number 49)
- Services by Educational Institutions (SIC Major Group Number 82)
- Social Services (SIC Major Group Number 83)
- Government Enterprise Activity Service Fees (SIC Industry Group Number 919)
- Local and Suburban Bus Transportation Services (SIC Industry Group Number 411)
- Employee Leasing Services (SIC Industry Number 7363)
- Railroad transportation of freight (SIC Industry Number 401)[10]
- Beauty and barber shop services (SIC Industry Numbers 723 and 724)[11]

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[10] Subsequent to the Senate analysis, a floor amendment (barcode number 754170) was adopted on January 31, 2002 that established this exemption.

[11] Subsequent to the Senate analysis, a floor amendment (barcode number 343412) was adopted on January 30, 2002 that established this exemption.

- Legal services rendered by an attorney to a client in a criminal case if the criminal charges are dismissed or the client is ultimately adjudicated not guilty. This exemption is by refund only.
- Services provided by travel agents related to arrangement of transportation and accommodations
- Charges for transportation of pulpwood[12]

Note: As used in the bill, "SIC" means those classifications contained in the Standard Industrial Classification Manual, 1987, as published by the Office of Management and Budget, Executive Office of the President.[13]

3) Exempt from the sales and use tax the purchase or lease of materials, equipment, and other items, or the license in or lease of real property, by any entity that is primarily engaged in teaching students to perform any activities or services relating to the production of film, video, photography, sound and audio recordings, and other entertainment media.[14]

4) Impose a 1.5% sales and use tax on the following construction services:[15]

   - General Contractors – Residential, including repairs (SIC Industry Group Numbers 152 and 153)
   - General Contractors – Nonresidential, including repairs (SIC Industry Group Number 154)
   - General Contractors – Heavy Construction (SIC Industry Number 1629)
   - Construction – Special Trade Contractors, including repairs (SIC Major Group Number 17)
   - Heavy Construction Equipment Rental with Operator (SIC Industry Number 7353)

5) Reinstate various sales tax exemptions on the sale and use of tangible personal property, lease or rental of tangible personal property, and lease or rental of or license in real property. The following currently exempt transactions become taxable at 4.5%:[16]

   - Hospital physical fitness charges [s. 212.02(1)]
   - Leasing of real property between certain corporations [s. 212.02(2)]

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[12] Subsequent to the Senate analysis, a floor amendment (barcode number 754170) was adopted on January 31, 2002 that established this exemption.

[13] *Id.* at 6.

[14] Subsequent to the Senate analysis, a floor amendment (barcode number 163140) was adopted on January 30, 2002 that established this exemption.

[15] Staff analysis of Senate Committee on Finance and Tax and Rules and Calendar, at 5-6.

[16] *Id.* at 6-7.

- Per diem and mileage charges paid to owners of railroad cars [s. 212.02(10)(g)]
- Privilege, franchise and other fees paid to do business at airports [s. 212.02(10)(j)]
- Leases or rentals of certain property used for movie productions [s. 212.031(1)(a)9]
- Movie theater concession rent [s. 212.031(1)(a)10]
- Rents, subleases, or licenses in recreation or sports arenas and civic centers [s. 212.031(1)(a)10]
- Convention hall subleases [s. 212.031(5)]
- Certain lease termination payments [s. 212.031(8)]
- Lease or rental of high school and college teams' stadium skyboxes [s. 212.031(9)]
- Certain charges for an entertainment facility lease [s. 212.031(10)]
- Super Bowl tickets [s. 212.04(2)(a)4]
- Tickets for certain non-profit theater, opera or ballet events [s. 212.04(2)(a)6]
- Long-term motor vehicle leases, if tax paid when purchased by lessor [s. 212.05(1)(c)]
- Operators of game concessions who award tangible personal property as prizes can pay tax on 25% of the gross receipts from the concession [s. 212.05(1)(n)]
- Fabrication labor used in the production of qualified motion pictures [s. 212.06(1)(b)]
- 1% use tax rate per month for airplanes purchased for resale but used by dealer [s. 212.06(13)]
- Contractors' use of rock, shell and fill dirt for own use [s. 212.06(15)]
- Horses sold at claiming races taxed on the mark-up, after initial sale [s. 212.07(5)(b)]
- Contact lens molds costs in excess of $100,000 of tax paid annually [s. 212.08(2)(a)]
- Partial exemption for fuel for vessels and vehicles in interstate commerce [s. 212.08(4)(a)2]
- Motion picture or video equipment used in motion picture or television production and sound recording equipment used in production of master tapes and record [s. 212.08(5)(f)]
- Feed for ostrich and racehorses [s. 212.08(7)(d)]
- Utilities purchased for use in a residential model home [s. 212.08(7)(j)]
- Alcoholic beverages used by businesses for tasting [s. 212.08(7)(s)]
- Professional, insurance or personal service transactions involving sales as inconsequential elements for which no separate charges are made [s. 212.08(7)(v)]
- Newspaper, magazine and newsletter subscriptions delivered by mail [s. 212.08(7)(w)]
- Charter fishing boats [s. 212.08(7)(y)]

- Leases to or by fair associations for real or tangible personal property [s. 212.08(7)(gg)]
- Products sold by PRIDE [s. 212.08(7)(mm)]
- Mobile home lot improvements [s. 212.08(7)(oo)]
- Racing dogs sold by breeders [s. 212.08(7)(ss)]
- Railroad roadway materials [s. 212.08(7)(eee)]
- Partial exemption on the sale or use of vessels used in interstate commerce and the sale or use of related parts [s. 212.08(8)]
- Partial exemption on motor vehicles and railroads used in interstate commerce and sale or use of related parts [s. 212.08(9)]

6) Repeal the health care assessments found in ss. 395.701 and 395.7015, F.S., effective July 1, 2005.[17]

Furthermore, the bill provides that if the passage of the constitutional amendment results in the inability of the local government to pay debt service on certain bonds, it is the intent of the Legislature to provide alternative funding sources. Such bonds are those issued by local governments and secured by state-shared or local option revenues currently outstanding or issued prior to July 1, 2004, which may be impacted by the passage of a CS for SJR 938.[18]

In addition, a "dealer," as defined under s. 212.06, is allowed to compute the amount of the tax payable on the basis of cash receipts, for all taxable transactions under Chapter 212. However, if the transaction involves both the sale or use of services and the sale or use of tangible personal property, and the tangible personal property is not an inconsequential part of the transaction, the sales and use tax must be computed in accordance with s. 212.12.[19]

Last, the bill provides that if further revenue estimates allow for additional sales and use tax exemptions in order to achieve revenue neutrality, then it is the intent of the Legislature to first exempt transportation services.[20]

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[17] *Id.* at 7.

[18] *Id.*

[19] This provision was established by a floor amendment, barcode number 921916, adopted on January 31, 2002.

[20] Staff analysis of Senate Committee on Finance and Tax and Rules and Calendar, at 7.

APPENDIX C

Florida's sales tax revenue has shown strong growth throughout the 1990s, both in inflation-adjusted taxes per person and as a percentage of personal income.

Florida's Sales Tax Revenue
1970-2000

Fiscal Year	Infl. Adj. Taxes Per Person	Percent Increase	As a Percent of Total Taxes	As a Percent of Personal Income
99-00	$908	5.1%	48.5%	3.4%
98-99	$864	3.9%	47.2%	3.3%
97-98	$831	3.1%	46.3%	3.3%
96-97	$806	0.7%	46.3%	3.2%
95-96	$800	4.5%	46.1%	3.3%
94-95	$765	1.9%	44.1%	3.2%
93-94	$751	2.8%	42.9%	3.2%
92-93	$731	4.8%	42.5%	3.2%
91-92	$697	2.6%	42.9%	3.0%
90-91	$680		42.6%	2.8%
85-86	$621		49.4%	
80-81	$523		48.2%	2.6%
75-76	$427		43.3%	
70-71	$464		45.2%	2.8%

APPENDIX D

JEB BUSH
GOVERNOR

STATE OF FLORIDA

Office of the Governor

THE CAPITOL
TALLAHASSEE, FLORIDA 32399-0001

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February 7, 2002

The Honorable John McKay
President
The Florida Senate

The Honorable Tom Feeney
Speaker
Florida House of Representatives

Dear President McKay and Speaker Feeney:

In my State of the State Address, I pledged to facilitate full, honest and transparent dialogue on the Senate tax plan. To that end, I raised several important questions concerning the impact that a massive tax overhaul would have on Florida's business climate.

So far, the accelerated discussion of the reform plan has focused primarily on the tax collectors in Tallahassee, rather than the taxpayers throughout Florida. Government expansion has been the concern, not economic growth and job creation.

Now, as this tax plan moves to the House of Representatives, I believe it is appropriate to offer my specific thoughts and concerns based on testimony provided to the Florida Senate; research conducted by the Governor's Office; economic theory and principle; and my own experience as a businessman, a former Secretary of Commerce and Florida's chief economic development officer.

As Governor, I am also committed to represent all the people of the State of Florida, not just those who are most vocal about reform, whether they are business interests concerned about the impact of the proposal or others seeking growth in government. Seemingly left out of the debate are those Floridians who are busy raising their children, trying to support their families with dual incomes, and going about their everyday lives – Floridians who must shoulder the burden of tax reform either through higher prices, lower wages, or lost jobs.

While I applaud the Senate's passion for debating Florida's system of taxation, I have come to the conclusion that I cannot support the proposal passed by the Senate. I cannot support a proposal that will lock into our Constitution any plan that does not embrace the fundamental principle that government should not grow faster than our ability to pay for it. I believe now more than ever before that the true issue lies not in how much the government takes, but in how much the government spends. Regardless of its intent, this tax reform is a government spending plan.

I will outline the specific reasons for my opposition in two ways: by refuting six premises that provide a shaky foundation for this proposal, and by answering critical questions as yet insufficiently answered about the impact of the proposal on Florida's personal and business taxpayers.

The Six Premises for Tax Reform

I believe that our tax structure is an asset, and not a liability as some have suggested. Just consider Florida's job growth compared to other states during the slow growth period of the last year. As the *The New York Times* reported, while the nation as a whole lost one million jobs in 2001, Florida increased employment by 138,000 jobs. Economists, entrepreneurs, small businesses, Florida's own State Tax Reform Task Force, and average Floridians alike believe our tax structure is fundamentally sound.

Premise 1: We are facing a revenue crisis. Revenues are meeting Florida's budget needs. During the 1990s, sales tax collections as a percent of personal income actually increased, from 3.3% in FY 1990 to 3.5% in FY 2000, even as total state collections declined as a percent of personal income over the last three years. Over the last 20 years, growth in government spending per person has outpaced Florida personal income per person by nearly 61 percent. Furthermore, current long-term forecasts of the Revenue Estimating Conference suggest that over the next ten years, sales tax collections will grow very closely in step with total personal income.

Our taxes are growing at the same rate as the economy, and we should not increase them. Floridians deserve a committed effort from the Legislature and the Governor to find better, smarter, more efficient ways to accomplish our priorities, rather than requiring our hard-working citizens to give an ever-increasing portion of their income.

Premise 2: We will "lose" approximately $4 billion in revenues by 2006. First, I must refute this claim on principle. Those items and activities left untaxed do not represent a revenue "loss" for government. If they did, then the sales tax exemption on food, for example, would represent a significant revenue "loss." In theory, the state could tax almost anything or any activity, but the fact that we choose otherwise does not represent a revenue "loss" for Florida in each case.

Regarding the $4 billion figure, Congress passed legislation that will stop taxing people's property after they die. I support that decision. This will impact our revenue projections by a little less than $1 billion over the next four years.

The remaining $3 billion of the cited $4 billion is attributed to revenue losses from remote sales, via either mail order or the Internet. The University of Tennessee estimates cited by some reform proponents do not hold up well under close scrutiny. The attempt to project for every state forced the use of overly-simplistic methods, wholly inadequate in accounting for the idiosyncrasies of each state's economy and tax structure.

For example, approximately one-half of the $3 billion in 2006 is attributed by the study to "trend loss," which is defined as revenue losses due to broad cultural shifts in consumption away from goods to services. That estimate did not use numbers from Florida's Consensus Revenue Estimating Conference, which already accounts for this change in consumer behavior and projects virtually no trend loss.

The study also estimates the other half of the cited $3 billion to be the result of e-commerce losses. To generate these estimates, the study had to make numerous assumptions about how much of the national e-commerce estimate was taxable/non-taxable, business-to-business, and business-to-consumer, and how much of taxes owed would actually be paid. The heavy reliance on unverifiable assumptions to "estimate" the tax losses is a good reason for caution when basing decisions on the numbers.

The Florida Department of Revenue recently indicated that the estimates of e-commerce tax losses for Florida are certainly inflated. The University of Tennessee's estimate for 2001 is $932 million. DOR is suggests that the number is closer to $225 million, a 76 percent overestimate. The difference is due to disagreement on the assumptions about how much taxable business-to-business activity will be captured. Given the apparent error in the 2001 estimate, the 2006 estimate should suffer from a proportionate degree of inaccuracy.

Therefore, the most important reason expressed for the need for changes in our tax code, the $4 billion shortfall is not close to being correct.

Premise 3: The Senate Plan will raise enough revenues to make up the cited $4 billion. The goal of making the tax system more "adequate," suggests that the objective is to somehow raise more revenues than the current system provides. Based on numerous comments made during Senate hearing and floor debate, this certainly appears to be the expectation of some of the Senators who voted for the measure.

Even if one assumes the $4 billion "loss" projection, the Senate plan will not make up the difference. With revenue neutrality required in FY 2004-05, generating an additional $4 billion in the succeeding year or two from the base expansion would require annual growth rates in the newly taxed portion of the base in the range of 50 to 100 percent. Given that it took the proposed base-expansion sectors about 9 years to grow by 100 percent in the 1990's, the proposal cannot provide a revenue increase of that magnitude, even before accounting for the potential loss of jobs and economic activity that could result from enacting the Senate plan.

Premise 4: The Senate plan is "revenue neutral." This statement is clearly contradictory to the premise that the plan would raise more revenue than the current system. If the goal is to raise revenues, then proponents should be straightforward with Floridians and tell them that they think current revenues are simply inadequate and that we need to increase taxes, rather than hiding behind the veil of "revenue neutrality."

Premise 5: The tax structure is unstable and exaggerates economic fluctuations. Broadening the tax base, it is argued, will make tax revenues more stable and will render vital state services less vulnerable to disruption during economic downturns. Proponents, however, have not demonstrated that the proposal will provide any significant degree of state budget protection from the business cycle. If the additional goods and services proposed to be added to the tax base are more stable than the current tax base, all the old "less stable" elements will still be there during an economic downturn. At best, the plan can provide a marginal improvement in tax revenue stability. Based on past recessions, it will certainly not protect vital state programs from revenue shortfalls that inevitably occur in economic downturns for all state governments.

One does not have to look beyond this recession to see that there are many other states with broader tax structures experiencing even worse revenue shortfalls than Florida. For example, California's shortfall represents at least 7.7% of its total budget and Massachusetts anticipated a deficit equal to 5% of the state's total budget. By comparison, Florida's shortfall was 2.8%.

Premise 6: The current tax system is not fair and is illogical. It is argued that current exemptions protect special interests while Florida households must pay higher taxes -- that a "fair" tax system will spread the tax burden equitably across all segments of society (i.e. businesses should pay more taxes directly). This argument makes good intuitive sense, and it makes good economic sense if the goods and services taxed in "all segments of society" are subject to the same tax rate. But one of the reasons economists argue against levying sales taxes on business inputs, as the plan suggests, is that taxes will pyramid up through the cost structure. Consequently, the <u>effective</u> tax rate on the end product will differ among final goods and services, depending on the mix of taxable inputs that are used in their production/delivery. Economic theory suggests that extensive taxation of business inputs can result in inequities in the tax structure.

Questions About the Impact of Tax Reform on Florida's Economy and Families

Usually during the legislative process, questions raised about substantial reform are answered in committee hearings or in floor debate. However, in this particular case, many questions went unanswered, and those that were answered only raised more questions. The following are questions that I feel are of critical importance, but which upon our own study and reflection yield discomforting conclusions:

How will the plan really affect businesses and jobs in Florida? Will we be able to keep a competitive position that is the envy of many states? Testimony from manufacturing and agricultural representatives indicates that taxation of transportation services would increase the costs of those industries in Florida, potentially threatening their location in this state. Florida will be the **only** state in the nation to subject freight transportation to the sales tax. There was also testimony that taxation of transportation services could have a significant competitive impact on Florida's air and seaports.

Economist Dr. Hank Fishkind -- an advocate of the Senate Bill -- noted in his testimony that waterborne transportation would have difficulty passing the tax on, which means the tax would eat into wages, capital, and employment in that industry. As well, testimony was given that correctly stated that the bill is "anti-headquarters" legislation because of taxation of inputs used heavily by headquarters operations (e.g., accounting, legal, consulting, among others)

How will small businesses be impacted? Small businesses are the principal driver of our economy. These enterprises generally outsource much of their professional service needs because they cannot hire full-time employees to provide these services. They will pay a disproportionate amount of this new tax. While proponents claim through hypothetical examples that small businesses will not be adversely affected, they have not provided hard data to show that the new taxes will be offset by the 1.5% reduction in the overall sales tax rate.

Will the state's economic growth be adversely affected? Based on testimony, there would be an adverse impact. Numerous repealed exemptions are in areas that are sensitive to interstate and international competition, and could pose a threat to the viability of those activities in this state. Included in this group are investment offices, consulting services of various types, motion picture/TV production, some transportation services, research, development and testing services, and our emerging technology companies to name but a few.

How will this affect the size and scope of the tax bureaucracy? How much bigger will it have to get? The Department of Revenue will increase in size to fully implement the Senate tax plan. In order to audit and enforce compliance of the new businesses required to file taxes, the Department's preliminary estimates project that over 200 new employees will be needed, a 10% increase in the general tax administration personnel. Most of the new positions will be auditors and enforcement/collection specialists. The funding for these new positions will require an additional $10-11 million in general revenue.

How much more complicated will the tax code become? How difficult will it be for both taxpayers and the Department of Revenue to fall into compliance? The tax code will get bigger and more complex in order to accommodate the taxation of a new set of heretofore-untaxed activities. This means there will be new definitions, new rules for determining where taxable services actually occur for taxation purposes, and new rules for distributing taxable services among different jurisdictions, to name but a few.

- In 1987 the Dept. of Revenue Emergency Rules for implementing the services tax took 130 pages (single-spaced) to explain.
- In 1987, the portion of the Florida Statutes pertaining to the sales tax grew by 19 pages (46%) from 41 to 60, as a result of the services tax.
- There will be a 34% increase in the number of businesses (from 500,000 to 670,000) that will have to register as tax dealers and learn how to collect taxes for the state. The complexity they each face will depend on the activity being taxed and the specific rules, not yet developed, that define how they are to be taxed.
- Public testimony, particularly from small business groups highlighted concerns about the additional cost, in money and time, of having to undertake this task for the state. The maximum of $30 per month that businesses can get as a dealer collection allowance hardly serves as adequate compensation.

Will this plan result in more tax pyramiding—or taxing taxes? The plan will result in more tax pyramiding because it is shifting sales taxation away from final consumption of goods and services by households to consumption by businesses. To the extent that businesses build the cost of the new taxes into their own prices, and those prices are in turn subject to sales tax, pyramiding would occur. Dr. Fishkind even testified that the taxation of transportation services would result in pyramiding.

How will consumers really be affected? Will households actually save money? Or will businesses just pass the taxes on so consumers end up paying anyway? The full effects cannot be quantified with much accuracy. Dr. Fishkind presented estimates that the average Florida family will save $250 annually under the Senate tax plan. By Dr. Fishkind's own admission, this is an estimate of the direct savings and does not account for the increased business taxes that will be passed on in price increases to consumers. Businesses will pass on the increased taxes if they are able. Otherwise, there will be adverse effects on wage or business income if businesses cannot pass the taxes on to consumers. Either way, our people will pay.

Will tourists pay less and Floridians pay more? It is clear tourists will pay less, since only some of the goods and activities that tourists buy will continue to be taxed at 6 percent. If the plan is revenue neutral and tourists will pay less, then Florida residents will certainly make up the difference. In addition, in viewing the list of services to be newly taxed, it becomes clear that most of these services are rendered for the benefit of Floridians. Legal, consulting, engineering, employment, accounting, banking, freight transportation are all services provided primarily to Floridians, not tourists. Despite Senate efforts to retain tax levels that apply to tourists, Floridians will still be paying for the new taxes enacted, not our seasonal visitors.

What of investment climate uncertainty? I am concerned about the impact that passage of the Senate bills would have on our ability to continue to attract job-creating business investment to Florida. While the implementing bill is very prescriptive in what is exempted, there will still be much leeway for the next Legislature to change what is exempted and what is not. Using history as a guide, the uncertainty will have a chilling effect on the economic development efforts of our state. Adding an uncertain tax code to already difficult economic times will hurt our chances to continue to recruit and retain higher wage jobs for Florida families.

In sum, while the Senate tax plan is the product of a sincere effort, it is clear that its flaws are in no way grounded in intent, but in faulty premises and adverse consequences. Again, I have appreciated the opportunity to follow the discussion on tax reform, and restate that my conclusions are based solely on principle and experience. They should not be interpreted as anything more than that. History may prove me wrong on these conclusions. But, as Florida's Governor, I have an obligation to weigh in on issues of significance to the state, and this well-meaning reform certainly rises to that occasion. Thank you again for affording me the opportunity to share my perspective on this important issue.

Sincerely,

Jeb Bush

Jeb Bush

Cc: Sen. Jim King, Senate Majority Leader
Rep. Johnnie Byrd, House Speaker Designate
Rep. Jerry Maygarden, House Majority Leader
Sen. Tom Rossin, Senate Minority Leader
Rep. Lois Frankel, House Minority Leader

APPENDIX E

STATE TAX REFORM TASK FORCE

Final Report
January 28, 2002

Executive Summary

Chapter 2000-222 F.S. created the State Tax Reform Task Force and directed it "to examine the state's tax structure and make recommendations to the Governor and Legislature on how the state's tax structure can be improved to ensure a stable revenue base that is adequate to fund the needs of the state. After examining the state's tax structure and considering extensive testimony from all sectors we conclude that the current state's tax structure is adequate to carry the state forward into the 21st Century.

The State Tax Reform Task Force offers this report as our best efforts to fulfill the charge given us by the enabling legislation. The Task Force created a set of six Principles of Taxation to be utilized in evaluating Florida's tax system. These Principles of Taxation are:

1. Equity – The Florida tax system should treat individuals equitably. It should impose similar tax burdens on people in similar circumstances and should minimize regressivity.

2. Compliance – The Florida tax system should facilitate taxpayer compliance. It should be simple and easy to understand so as to minimize compliance costs and increase the visibility and awareness of the taxes being paid. Enforcement and collection of tax revenues should be done in a fair, consistent, professional, predictable and cost-effective manner.

3. Pro-Competitiveness – The Florida tax system should be responsive to interstate and international competition in order to encourage savings and investment in plant, equipment, people, and technology in Florida.

4. Neutrality – The Florida tax system should affect competitors uniformly and not become a tool for "social engineering". It should minimize government involvement in investment decisions, making any such involvement explicit, and should minimize pyramiding.

5. Stability – The Florida tax system should produce revenues in a stable and reliable manner that is sufficient to fund appropriate governmental functions and expenditures.

6. Integration – The Florida tax system should balance the need for integration of federal, state and local taxation.

The Task Force believes that any revision or amendment to the tax code should conform to these principles, but recommends that the tax and spending limitations suggested by the Task Force be enacted prior to any attempt at major reform. It is the recommendation of the Task Force that, should the Legislature undertake an evaluation of the state's tax structure, a review of current tax exemptions, propose new tax exemptions, or propose a reduction in the tax rate, the Legislature utilize these Principles of Taxation in their review.

Proposed Recommendations of the State Tax Reform Task Force

Issue # 1: Constitutional Amendment to Limit State Appropriations

Replace the state revenue limitation with an appropriations limitation that limits state appropriations for any fiscal year to state appropriations for the prior fiscal year plus a growth adjustment of inflation and population growth.

Issue # 2: Constitutional Amendment to Limit Legislative Authority to Increase Taxes

Require that any law that imposes new or increased taxes or repeals exemptions from a tax be enacted in a bill for that purpose only by a two-thirds vote of the membership of each house of the Legislature.

Issue # 3: Constitutional Amendment to Limit Local Authority to Increase Taxes

Requires that any local rule or ordinance that imposes new or increased taxes or repeals exemptions from a tax be enacted by a majority plus one vote of the membership of the respective board, council or commission.

Issue # 4: Streamlined Sales Tax Project

The Streamlined Sales Tax Project's primary objective is to reduce the complexity and administrative burden currently borne by businesses in collecting use taxes in interstate commerce. The project's secondary objective is to secure the passage of federal legislation whereby Congress would authorize the states participating in the streamlined project to require remote vendors, such as Internet and mail order sales, to collect and remit use taxes imposed by those participating states. With Florida's heavy reliance on the sales and use tax, the State Tax Reform Task Force believes it is imperative that Florida continues to actively participate in the Streamlined Sales Tax Project.

Issue # 5: Repeal of the Intangibles Tax

The Task Force recommends that the Legislature make a commitment to continue the elimination of the intangibles tax when appropriate.

Issue # 6: Repeal of the Alcoholic Beverage Surcharge

The Task Force recommends that the Legislature make a commitment to continue the elimination of the alcoholic beverage surcharge when appropriate.

Issue # 8: Roll Back of Sales Tax on Commercial Electricity and Communications Services

The Task Force believes that there should not be a differential in the sales tax rate between commercial and noncommercial electricity and communications services. The Task Force recommends that the Legislature make a commitment to roll back the state sales tax rate from 7% to 6% on commercial electricity and commercial telephone service, when appropriate.

Issue # 9: Repeal of the Health Care Assessment on Hospital Out-Patient Services

The Task Force recommends that the Legislature make a commitment to continue the elimination of the PMATF assessment on hospital out-patient services when appropriate.

Issue # 10: Documentary Stamp Tax on Unsecured Notes

Cap at $2,450, the documentary stamp tax due on an unsecured note executed in Florida. This translates into a loan of $700,000, which means that all such loans of $700,000 or more would have a tax liability of $2,450. The Legislature and the Department of Revenue should monitor the response to this change to determine if the loan threshold is appropriate.

Fiscal Impact: Revenue neutral

Explanation of why needed Current law imposes the documentary stamp tax on promissory notes, nonnegotiable notes, written obligations to pay money, and assignments of salaries, wages, or other compensation, at the rate of 35 cents per $100, if executed delivered, sold, transferred, or assigned in the state. Florida residents and businesses can avoid this tax by executing these agreements outside the State of Florida. When the amount of tax that would be due on the Florida transaction is significantly greater than the cost of closing the deal outside of the state, the parties to the transaction have an incentive to leave the state, and often do. This will not affect the tax on notes secured by real property.

Issue # 11: Tax Compliance

The Task Force recommends to the Legislature, the following tax compliance and tax administration changes:

Sales Tax

Provide statutory authorization to make permanent the temporary $5 fee waiver for online registration.

Provide statutory authority for the department to require a report to be submitted when filing a sales and use tax return if the dealer is claiming credits against the tax.

Insurance Premium Tax

Authorize the Department of Revenue to create databases to be used by insurance companies in identifying the location of risks insured by their property and casualty insurance policies. Insurers using these databases would be exempt from any tax, penalty or interest which would otherwise be due as a result of incorrectly assigning its policies. Insurers that did not use the databases or exercise due diligence would be subject to a 0.5 percent penalty on the premium of each policy incorrectly assigned.

Corporate Income Tax

Delete the requirement that corporations, which are not otherwise required to file a tax return, must file an informational return for the year in which they make an election pursuant to s. 1361(b)(3) or the Internal Revenue Code.

Amend s. 220.23, F.S., to clarify that interest is owed on underpayments from the original due date of the tax to the date the tax is actually paid, even if the deficiency is discovered during a federal audit.

Documentary Stamp Tax

Repeal the documentary stamp tax on the original issue of stock certificates.

Intangible Personal Property Tax

Repeal the requirement that corporations file a return when no tax is due.

Repeal the requirement that corporations file annual information returns regarding stock value and the related penalty provisions.

Unemployment Tax

Change the due date for annual filing from April 1 to January 1 and change the delinquency date from April 30 to January 31. Amend the statute to allow most employers of domestic employees to file annually by removing some exceptions that exist in current law.

Issue # 12: Encourage Consistency Within the Department of Revenue

In order to ensure consistent tax treatment by the Department of Revenue, the Task Force recommends the following language be added to the "Florida Taxpayer's Bill of Rights":

(16) <u>Florida taxpayers shall have the right to fair and consistent application of Florida tax laws by the Department of Revenue.</u>

APPENDIX F

Special Report
February 2002

Florida TaxWatch

Florida TaxWatch Position Paper: Modernizing Florida's Tax System

Florida TaxWatch commends Senate President John McKay for his vision and courage in proposing Sales Tax Reform (SJR 938). His initiative gives new life and a heightened visibility to the debate over how to modernize Florida's tax system. However, while an informed tax debate would be good for Florida and its citizens, there is little hope that this will happen in the climate of acrimony and sound-bite mentality that already has emerged over the McKay initiative. The economic assumptions upon which the claims for revenue neutrality and improvement in tax incidence of households and businesses need further clarification and verification, and the data upon which they are based must be revealed and validated.

The proposal to use Florida's Constitution as the vehicle for major tax reform is simply wrong. Florida TaxWatch has a long and consistent history of opposing attempts to legislate by constitutional amendment, especially when the state constitution already allows the statutory enactment of such a proposal. The Legislature should not abdicate its responsibility on such a weighty matter nor tie the hands of yet-to-be-elected lawmakers who will face so many uncertainties in the new economy.

A thoughtful, comprehensive reform of Florida's tax structure calls for more than just a hasty "rearranging of the attic." To rush through such a revolutionary change-one of the most radical in some seventy years-in any one legislative session without the requisite due diligence and coalition building is not just questionable; it is problematical and precarious in an election year beset by economic recession, the fallout and uncertainties triggered by "9-11," and legislative redistricting. Clearly, the Florida Legislature this year has its hands full without having to take up major tax reform. There just is not enough time to do justice to an issue of such far-reaching importance in the next sixty days.

Any such monumental change to Florida's tax system requires concerted forethought, independent review (including a highly rigorous consensus examination of the economic impacts, revenue estimates and dependable tax receipts) and a comprehensive framework for tax modernization accompanied by a deliberate and thorough debate by lawmakers and the public concerning the potential ramifications on people and businesses. Promoting tax reform first and foremost to stabilize the state tax structure's revenue-generating capacity addresses only one piece of a very complex puzzle and fails to ask the right questions. How will tax reform affect Florida's economy, both in the short-term and over the long haul in an exponentially changing economy? Will individual Floridians be better or worse off as a result? How will Florida tourists-from out of state and instate resident tourists-be effected, and how will that affect Florida's economy? Are the economic assumptions upon which the study is based clear, sound and acceptable? Is the stated principal of revenue neutrality justified in today's unstable economy? Will Florida's business climate be a casualty or beneficiary of tax modernization? Do the proposed changes promote a world-class business climate? How will capital formation, personal income, job growth, savings and corporate profits be affected?

Such important questions cannot be answered with confidence in just one eleventh-hour legislative initiative and without thorough review and deliberation-especially not this year. During these turbulent times, reform of Florida's tax system does not deserve a rush to judgment in pursuit of a vague, ill-framed concept of tax stability.

State legislative leaders have asked Florida TaxWatch to independently review the impact that modernizing the state's tax structure will have on Florida households, businesses, the state's business climate and its ability be a competitive force to be reckoned with in the new economy. TaxWatch made its position on modernizing Florida's tax system via amending the Constitution known to the Senate President as early as last November and to a number of leading lawmakers and groups: the Governor, House Speaker, The Florida Council of 100, Associated Industries of Florida, the Florida Chamber of Commerce, the Florida Retail Federation, and others.

Building upon its recent policy accomplishments, Florida TaxWatch's Center for a Competitive Florida already is doing an independent, review and comprehensive analysis of how to best modernize Florida's tax system. Enlisting the best coalition of minds, professional expertise and experience from senior TaxWatch staff, and the public and private sectors, the Center Advisory Committee will meet four to five times following the current legislative session to study how to best promote, through fair, efficient, stable and accountable tax policy, Florida's ability to adapt competitively to the dynamics of the new economy and the needs of the people and Florida businesses. On February 11, 18 and 25, the Center will be releasing several *Special Reports* in its ongoing series on *Modernizing Florida's Tax System.*

The Center study will take into account a variety of interlocking variables: capital formation in current and emerging markets, the distribution and increasing fluidity of factors of production, e-commerce, the geographic mobility of firms and interjurisdictional tax competition, the taxation of remote sales over the Internet, deregulation of telecommunications, the deregulation of electricity and gas, the declining production of tangible goods relative to services, tort reform, etc. All current and potential sources of revenue are on the table for the Center to comprehensively review and analyze: the sales and use tax, corporate income tax, personal income tax, other state taxes, nontax revenue sources, and currently exempted or untaxed goods and services.

Any responsible and nurturing modernization of Florida's tax system requires the nonpartisan, independent assessment being done by the Center for a Competitive Florida. The study will determine through fact-based research how Florida, its citizens, and the state's business climate will fair once modernized. It will assess the particular combination of tax system factors that work best toward achieving tax fairness among Florida households and businesses, one promoting an understandable system that is understandable, fosters tax compliance and is inexpensive to operate. Absent such knowledge Florida risks not being able to effectively compete in the emerging global, substate-regional or interstate markets, foster free enterprise and create a business climate that will attract and retain the high-value jobs Florida residents and businesses deserve.

While Florida TaxWatch applauds President McKay for provoking debate on this important issue, it is remains opposed to legislating with the State Constitution, especially given the enormously complex and dynamically changing issues included in this constitutional initiative. Even if done legislatively, TaxWatch nonetheless has other strong reservations about radically changing the sales and use tax proposal without examining both the intended and unintended consequences such a major tax change may have on Florida's people and economy.

By assembling the best of Florida's business community, professional and civic leadership, the Center for a Competitive Florida will be positioned to better assess the ability of Florida's tax system to meet the competitive requirements of Florida in the 21st Century. The Center will offer its finest research in the form of a critically examined Fiscal Blueprint for consideration by our elected officials and other constituencies, giving due diligence to this issue of such paramount importance to the business community and to the competitive future of Florida's economy.

The Second in a series of *Special Reports* on Modernizing Florida's Tax System
By
The Center for a Competitive Florida

This *Special Report* was written by Keith G. Baker, Ph.D., Senior Vice President and Chief Operating Officer.
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Special Report
February 2002

Florida TaxWatch

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Florida Sales Tax Exemptions Overstated

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The assertion has been made, and much repeated, that Florida's sales tax exempts far more than it taxes. Specifically, it has been said in connection with the debate over SJR 938, a proposed constitutional amendment being considered by the 2002 Florida Legislature, that the tax brings in some $17 billion, but that it affords exemptions having a value of $23 billion.

The "exemption" figures derive from the 2001 Florida Tax Handbook prepared under the auspices of the Florida Legislature by the Office of Economic and Demographic Research and the Florida Department of Revenue, Office of Research & Analysis. There is a listing of "exemptions" at pages 109-114 of that Handbook, and on page 114 there is a Grand Total for the so-called "exemptions" for FY 2001-02 of $22,671,900,000. The truth is that there is nothing like $23 billion in exemptions. The "exemptions" label is being misused to describe billions upon billions of dollars in transactions that are either not within the purview of Florida's sales tax at all or which the State is barred by the U.S. Constitution or other controlling law from taxing.

An "exemption" is a matter of legislative grace, a favor granted by which, in the case of sales tax, a transaction that would otherwise be subject to tax, is carved out from the tax. Florida's sales tax is imposed pursuant to Chapter 212, Florida Statutes. The tax reaches sales of tangible personal property (with a corresponding use tax on purchases of such property outside the State), the sale of a very few, specifically-enumerated services, the sale of admissions, transient rentals, leases of real property for commercial purposes, the sale of service warranties covering tangible personal property, and certain other listed transactions.

Avoiding pyramiding and duplicative taxation. The Florida sales tax is a one-level[1] tax on retail sales to final consumers. In order to assure the character of the tax as a retail sales tax (as opposed to a gross receipts tax, for example), items purchased for resale are not subject to tax. While the Handbook list does not include the value of most purchases for resale in the $23 billion total as such, it does include variants of such transactions. Thus, materials used for packaging other items being sold are not taxable–their cost is included in the price of the item being packaged and sold and is subject to tax at that time. The Handbook depicts this as a $27 million "exemption," when in fact, the statutory provision in question simply preserves the tax as one on the final retail transaction.

[1]The Legislature has expressly declared its intention that the tax be one on the final consumer and so no pyramid, i.e., that it not operate to impose tax on tax or duplicatively on successive transactions. Fla. Stat. § 212.12(12).

simply beyond the pale of a tax which has historically been a tax on the retail sale of tangible personal property (along with admissions, transient rentals and other non-service transactions).

Only during Florida's brief experiment with the taxation of services in 1987 were services generally subjected to Florida sales and use tax and that was accomplished not by the mere repeal of some "exemption" from tax, but by the affirmative imposition of tax on specified service transactions. The new "implementing bill" offered in support of SJR 938, namely CS/SB 1106 also effectively concedes this point, taking the 1987 tack and affirmatively listing those services to be taxed. While there is nothing which in principle forbids the Legislature from adding services to Florida's sales tax base, the statement that they are currently "exempt" from tax is not an accurate statement of the law. Yet the value of the services "exemptions" in the Handbook amounts to more than $13 billion of the so-called $23 billion in "exemptions." Taking that correction alone, the claim that Florida exempts more than it taxes fails since the tax collects over $16 billion and could then be said to exempt no more than $10 billion at the outside.[3]

Limiting the tax to those engaged in business. The Florida sales tax, although collected from consumers by the selling dealer, is an excise or privilege tax imposed upon the privilege of engaging in the "business" of making taxable sales. Accordingly, occasional and isolated sales (garage and yard sales and transfers of title occurring in connection with business reorganizations, by way of illustration) are not subject to tax. The statutory treatment of occasional and isolated sales is not fairly denominated "exemptions" but is designed to limit the reach of the tax to those engaged in making sales as a business. Yet the Handbook includes a $25.5 "exemption" for occasional and isolated sales by businesses.

Taxation prohibited by federal or other controlling law. The Handbook identifies $97 million worth of "exemptions" on Internet access fees. The fact is that taxation of such fees is prohibited by federal legislation, the Internet Tax Freedom Act and Florida could not at present tax such fees even if there were no "exemption" in former Florida Statutes § 212.05(1)(e)1.a. (now in Florida Statutes § 212.11(3)(h) of the Communications Services Tax).

The Handbook reflects a supposed "exemption" of $23.1 million for the credit allowed against Florida use tax for sales tax paid in other states. The fact is that such a credit is required by the Commerce Clause of the United States Constitution. Without the credit, both the sale of an item in, for example, North Carolina and its use in Florida would be subject to tax whereas the same purchase in Florida would yield only one tax, a scheme which burdens transactions in interstate commerce and so runs afoul of the Commerce Clause. Florida cannot lawfully fail to extend the credit in question, yet the number is lumped with exemptions which could be lawfully repealed for the purpose of raising additional revenue.

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[3]It should be said that even the characterization of the listed transactions as "services" is, in many instances, arguable. Franchise fees, patent and royalty payments (described as a $711.6 million "exemption") and insurance carrier payments (shown as an "exemption" valued at over $1.8 billion), for example, may be regarded as payments for intangible contractual rights and most would regard the charges for "money lending" (a supposed $689 million "exemption") as interest rather than as a purchase of banking services. The author is not aware of any state sales tax codes which tax interest, insurance premiums, franchise fees and the like. Such sums may be subject to tax in jurisdictions imposing a gross receipts tax and, in the case of insurance may, as in Florida, be subject to premiums taxation, but those are fundamentally different levies from the sales tax on consumers imposed under Florida law.

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A Tax on Services Does Not Belong in the Constitution

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Inquisitive and enlightened statesmen are deemed everywhere best qualified to make a judicious selection of the objects proper for revenue....

Alexander Hamilton
The Federalist No. 36

The Committee Substitute for SJR 938 is a proposal to amend the Florida Constitution. This measure would require the broad-based taxation of services and restrict legislative authority over the sales and use taxes, despite the historic character of taxation as a legislative function, despite substantial difficulties engendered by existing mandates and constitutional restrictions on the legislative taxing power, despite the prior failure of a statutory services tax, and despite pervasive interpretive issues raised by the proposal. These features of the proposal, which are developed in the ensuing paragraphs, should dissuade even the most ardent advocate of tax reform from supporting this measure.

The questions whether Florida needs tax reform, whether broad-based taxation of services is responsive to the need, and whether a reasonably workable system for applying the sales and use taxes in this manner is feasible, are not addressed this article. Whatever the merits of those issues, the Constitution is not the proper vehicle for advancing them.

I. Existing Framework and History

Article VII, section 1(a) of the Constitution provides:

> No tax shall be levied except in pursuance of law.

"Law" as used in the Constitution means an act of the Legislature. Article III, Section 6, Fla. Const; *see also Advisory Opinion to Governor*, 22 So. 2d 398 (Fla. 1945). The language in Article VII, Section 1(a) first appeared as Article XII, Section 3 of the Constitution of 1885, but its genesis was in the Constitution of 1838, which provided in Article VIII, Section 1:

> The General Assembly shall devise and adopt a system of Revenue having regard to an equal and uniform mode of taxation, to be general throughout the State.

Thus, in adopting the existing Constitution and each of its predecessors, the people of Florida established taxation as a uniquely *legislative* function. They did not contemplate taxation by referendum. They recognized, as did the Legislature in proposing the current Constitution in 1968, that selection of the objects of taxation is a complex subject best left to the deliberative judgments of their elected representatives.

Although the principle is especially true in the context of taxation, the idea that the Constitution is not a place for statutes more broadly reflects the nature of a constitution as a charter document. As the Florida Supreme Court has observed:

Corp .v. Seay, 347 So. 2d 1024 (Fla. 1977), it was a measure that allowed an alternative means of determining value. In *Valencia Center v. Bystrom*, 543 So. 2dd 214 (Fla. 1989), it was a provision relating to the use of actual rent rather than market rent in commercial property valuation. In *Fuchs v. Robbins*, 738 So. 2d 338 (Fla. 3rd DCA 1999), *appeal pending*, the court struck a statute deferring taxation of improvements to real property until they are substantially completed. Other statutes have also been challenged based on Article VII, Section 4, with no authoritative resolution to date.

Another line of decisions establishes that the Constitution limits legislative power to decide the property tax treatment of property owned by governmental entities. *See, e.g., Archer v. Marshall*, 355 So. 2d 781 (Fla. 1978); *Sebring Airport Authority v. McIntyre*, 783 So. 2d 238 (Fla. 2001). As a result, issues continue to vex local governments, leaseholders, and courts more than three decades after adoption of the 1968 Constitution. The fee interest of a city or special district in property that is not used for a public purpose *must* be subjected to ad valorem taxation, *Orlando Aviation Authority v. Hausman*, 534 So. 2d 1183 (Fla. 5th DCA 1988); *Canaveral Port Authority v. Department of Revenue*, 690 So. 2d 1226 (Fla. 1996). However, a county's interest in property is immune from taxation, regardless of use, *Id.* And it is constitutionally impossible for the use of a parcel of property to serve a public purpose if a private interest might derive a profit from it. *Sebring Airport Authority v. McIntyre.*

The constitutional restrictions on legislative authority in the property tax arena have been a continuing source of frustration for the Legislature. Given its repeated efforts to address property tax issues over the decades, it is evident that as an institution the Legislature believes it should have the flexibility to solve problems and meet changing needs in the field. Instead, it is essentially powerless to do so. The policies it establishes are consistently repudiated because of constitutional constraints.

It is understandable that the Legislature might propose an amendment to remove a restriction or clarify an issue; it is more difficult to appreciate why it would propose new mandates and restrictions that limit its own flexibility. One might expect proposals of that kind from other sources who object to legislative policies, but not from the legislative branch itself. The Legislature is an institution, and for current members to suggest that it is necessary to add new constitutional mandates and restrictions on its power would seem to undermine the vitality of the institution.

The origin of the sales and use taxes is also historically relevant. These levies were not designed to apply to services, and they are currently showing strains in the tangible personal property context. They were developed during the Depression, when commerce was largely local and the service economy was far less significant than it is now.[1] Today, transactions routinely cross jurisdictional lines, and sellers access markets without subjecting themselves to the taxing power of market states.[2] States perceive this as a threat to their revenues, and most of them, including Florida, are presently collaborating in an effort (the Streamlined Sales Tax Project) to accommodate the *conventional* sales and use taxes to the modern economy. [3]

Although taxation of some services, in some circumstances, may be relatively straightforward, the application of sales and use taxes to service transactions involving more than one jurisdiction is substantially more complex than with tangible personal property. The sale of a tangible object is generally a discrete, momentary, event that can be observed physically or documented contractually at a specified location. The same is true of the "use" of an object as the term is defined in use tax statutes. With services the transaction is more likely to occur over time, and the locus of a sale or "use" is much more abstract. There is no passage of "title" in any traditional sense, nor does one transfer "possession" of a service. The provider may expend labor in several jurisdictions to provide a single service, and the purchaser's activities related to the service may also occur in several jurisdictions that are different than those in which the provider expended his labor. Application of sales and use taxes to services thus requires development of unique sourcing rules, which sellers and purchasers must be capable of administering at reasonable cost. And the potential for multiple jurisdictions asserting the right to tax the same transaction is substantially greater with services than with tangible personal property.

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[1]The first general sales tax was enacted in Mississippi in 1932. The Florida sales and use taxes were enacted in the Revenue Act of 1949, Chapter 26319, Laws of Florida.

[2]*See, Quill Corporation v. North Dakota*, 112 S. Ct. 1904 (1992).

[3] See Special Report *Florida Joins the Streamline Sales Tax Project: An Important First Step in Moderninzing Florida's Tax System* (Florida TaxWatch, August 2001).

any super-majority or single subject requirement for the "definitions." Would the proposal allow the Legislature to avoid taxing a service merely by omitting a statutory definition for it? If so, the restrictions on exemptions would seem completely illusory. On the other hand, if this is not the intent, then it is the flexibility suggested by the change in language that becomes illusory.

The Florida Supreme Court has held that the words "as defined by law" as used in Article VII of the Constitution do not confer unlimited discretion in the Legislature, *Department of Revenue v. Florida Boaters Assn., Inc.* 409 So. 2d 17 (Fla. 1981). One could argue that the committee substitute confers legislative discretion only at the margins, so that in cases where the object of a transaction might be characterized in more than one way (for example, as a service or as an intangible), the statutory "definition" would control. If interpreted this way, the rewrite, like its predecessor, would be an unequivocal constitutional mandate to tax services. On the other hand, one could also posit that in the absence of legislative definitions, the tax on services has nothing on which to operate, and cannot be self-executing.[6]

A third interpretation is that the definitions in CS SB 1106 would control the reach of the constitutional tax on services. This "implementing bill," approved by the Senate Finance and Tax Committee at the same January 25 hearing at which CS for SJR 938 was approved, defines the word "service" by listing 42 activities and their Standard Industrial Classifications. Would these services, embodied in a statute, effectively become part of the Constitution by virtue of contemporaneous enactment? If so, one must assume that the Legislature would be without power to delete any of the listed activities, at least without complying with the restrictions applicable to exemptions. This leaves unresolved the status of any services that are not listed in CS SB 1106.

Other interpretive issues abound. The proposed amendment refers to the "general sales and use tax" as though it were already established in the Constitution. It is not, however, nor is there a constitutional requirement that the State impose such taxes. They are purely of statutory creation, but now they would in some sense become permanent parts of our organic law.[7] Presumably this means the Legislature would lack authority to repeal Chapter 212, Florida Statutes in its entirety. However, Chapter 212 is 90 pages long. One must decide whether the "general sales and use tax" that will now be constitutionalized includes all of Chapter 212 or only some of it, and if only some of it, which portions. A constitution exists independently of statutes, indeed, it is the foundation for them. By ambiguously referring to the statutory "general sales and use tax," the proposed constitutional amendment would turn this relationship on its head, with the result that we would lose forever the ability to discern where the Constitution ends, and Chapter 212 begins.

In commanding that all services must be taxed unless exempted, the proposal does not articulate the intended reach of Florida's taxing power. Many transactions have only tenuous connections with Florida. The proposal is silent as to the nature and extent of the connection that would trigger a state constitutional requirement to tax a service.

The manner in which this proposal is being promoted also merits mention. The public is told that households and small businesses should experience savings. This appears to be based upon a comparison of taxes paid *as taxes* under the existing system and under the proposal. However, unless the tax expenses that businesses will recover through prices are also quantified and included in the analysis, it is impossible to say whether the average consumer or small business will ultimately enjoy a savings. The tax savings assertions become even more speculative after the one year of revenue neutrality. If, as many fear, this proposal is a prelude to higher rates within the next few years, even the "tax as tax" savings could quickly evaporate.

Popular wisdom is that a constitutional amendment to allow a personal income tax could not gain voter approval in Florida. The difference between such an amendment and CS for SJR 938 is that the prospect of increased out-of-pocket costs would be immediately obvious to voters in the context of an income tax amendment, whereas with CS for SJR 938 the impact can be obscured by one's choice of arithmetic.

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[6]The question whether the proposal would be self-executing would affect the percentage of the popular vote required to approve it. *See,* Article XI, Section 7, Florida Constitution, requiring a two-thirds vote to approve taxes imposed "by any amendment to this constitution."

[7]The sales and use taxes are codified in the same chapter, but they are different taxes, imposed on different events. There is no "state sales and use tax," as the proposal suggests in paragraphs (a)(1) and (2); there is a state sales tax and a state use tax. As written, the provisions would literally require the imposition of both taxes with respect to the same transaction.

safety and welfare of Floridians. The purpose of a constitutional amendment is not to reverse the perceived "unwisdom" of elected representatives. The Constitution should not be cluttered, though it often is, with specific provision pronouncements designed to appeal to sentiments perceived to be popular with segments of the electorate. (Briefings, *State Constitution Is Not the Appropriate Destination for Proposed High Speed Rail,* Florida TaxWatch, October 2000).

IV. The Other Side

The principal argument in favor of a constitutional amendment is that the people should be allowed to vote on tax reform. Assuming that adjusting the base and rate of a single existing tax regime qualifies as "reform," the argument is not persuasive. First, the same observation could be advanced with equal force with respect to virtually any bill the Legislature enacts. To suggest that a popular vote is required for "tax reform," but not for the Legislature's other business, invites the question whether any principled criteria have been employed to make such choices.

Second, the people have already spoken. In the absence of constitutional *restrictions* on legislative action, they have prescribed the levy of taxes as a duty of the Legislature. There is no popular clamor for shifting the decisions about what should be taxed back into the laps of the voters. They have not asked for referenda on such matters, and those who are forthright would admit that they lack the information required. Rather, they would point out that this is a task uniquely suited to the legislative branch, and one of the primary reasons for having a legislative branch. To suggest that this amendment is ill-advised is not to deprive voters of a say; it is to honor what they have already said.

Third, as previously explained, the proposal is confusing, deals with an arcane subject, and the information available to voters is not likely to provide them with an understanding of the impact.

Fourth, the gravity of this issue is not in the idea of a popular vote, it is in the proposal to amend the Constitution. A referendum that does not bind this Legislature or future generations would be a different matter. It is the essentially irrevocable character of this proposal that creates the most serious concerns about it.

In response to the contention that the Constitution is no place for provisions that should be enacted as statutes, proponents point out that such provisions are already prevalent. At the Senate Finance and Tax Committee meeting of January 25, 2002, a sponsor remarked that if the people are to vote on the protection of pregnant pigs, they should certainly be allowed to vote on tax reform. However, the fact that the Constitution has already been muddied with programmatic content is not responsive to the contention that this is unhealthy and should not be exacerbated by the political leadership. It may be too late to preserve the "purity" of the Constitution as a charter document, but every improvident amendment creates its own set of adverse issues and risks. The Legislature may be unable to control abuses of the initiative mechanism, but it can control its own actions.[8]

The restrictions and the revenue neutrality provision in CS for SJR 938 have been advanced as major distinctions between this proposal and the 1987 service tax legislation. But the central difficulty in 1987 was the imposition of a Depression-era tax, that had been designed for local transactions in tangible personal property, on broad array of services crossing state lines. The more significant difference between the 1987 enactment and this proposal is that the 1987 measure was purely statutory and the Legislature was able to repeal it when it proved unworkable. CS for SJR 938 would not allow that flexibility.

V. Conclusion

The subject of taxation is always volatile and legislative leaders cannot be blamed for perceiving that popular support would assist them in achieving their goal. However, the means they have chosen is a constitutional proposal that is not in the best interests of the State. The voters of Florida have determined that the Legislature is best qualified to make decisions concerning the objects of taxation, and to modify those decisions as conditions require. This structural feature of Florida government should not be repudiated for political expediency.

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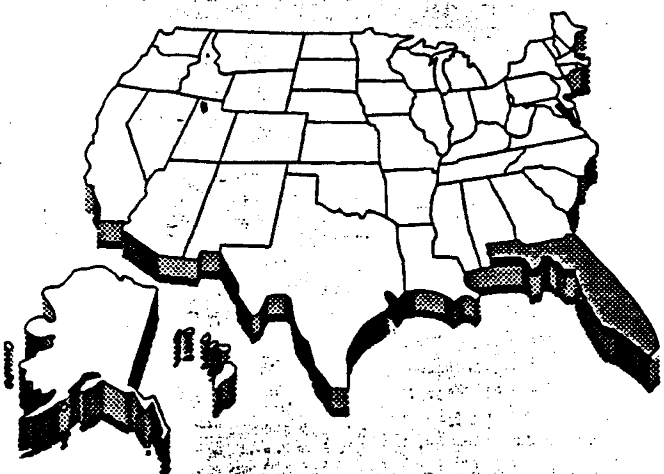
[8]Although the protection of pregnant pigs is not a proper subject for inclusion in the Constitution, at least the pregnant pig amendment is reasonably clear and unambiguous, so that people can understand what their votes would achieve. This is not true of CS for SJR 938.

HOW FLORIDA COMPARES



State and Local Taxes in Florida and the Nation

December 2001

"Improving taxpayer value, citizen understanding and government accountability."

About Florida TaxWatch

Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (purchased by *Governing* magazine) in 1989 published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected government watchdogs and taxpayer research institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post*. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over $6.2 billion (according to an independent assessment by Florida State University). That translates to approximately $1,067 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

How Does Florida Compare?

State Taxes - FY 2000   Local Taxes - FY 1999

This is Florida TaxWatch's annual report of how Florida's state and local taxes compare with those of the other 49 states. State and local governments across the nation have largely been avoiding tax hikes, and Florida has been no exception. What tax growth there has been in recent years has been largely due to a strong economy. This edition of *How Florida Compares* finds that tax burdens have not increased significantly. In fact, when viewed in terms of percentage of personal income, tax burdens have been getting smaller, both nationally and in Florida.

After rising two spots in 1999, Florida's per capita state tax ranking fell four spots in 2000. Our combined state and local ranking is down five spots.

Relative to other states, Florida's state and local tax burden is lower than average. But Florida has a higher reliance on local governments than many states, so our local tax burden is relatively greater than our state burden.

State Taxes. Floridians' per capita state tax ranking now stands at 43rd, the lowest position since 1985. As a percent of personal income (5.9%), Florida ranks 45nd in state taxes, down two spots from the prior year.

Local Taxes. Floridians' per capita local tax ranking rose two spots in 1999 to 20th. The largest component of local taxes, the property tax, rose one spot to 17th. Floridians' property tax burden is slightly above the national average.

Note: Due to the availability of U.S. Census Bureau data for state governments, this report includes state tax collection data for FY 2000, but the latest available data for local governments is FY 1999. Also, historical data have been revised to reflect changing population data from the 2000 Census.

What's Next?

The 2001 Florida Legislature was the third consecutive to cut taxes. These cuts are beginning to be reflected in the 2000 tax rankings and will continue through the next couple editions of this report. A strong economy in the past few years has contributed to some growth in taxes, but, now that the economy is cooling considerably, state revenue growth will also slow. This impact on tax collections will likely be more pronounced in Florida than most states. Floridians' tax burden should remain relatively low through the next set of rankings, and, unless the Legislature enacts tax increases in response to current budget shortfalls, Florida's tax rankings will certainly not rise much in the near future.

Key Facts and Findings

■ After rising two spots the previous year, Florida's per capita state tax ranking fell four spots in 2000. This ranking of 43rd is the lowest since 1985. Per capita collections rose only $25 (1.6%), reaching $1,553. This is still below the national average which stands at $1,921.

■ State and local governments have largely been avoiding tax hikes, so tax growth has been relatively slow. In fact, when viewed in terms of percentage of personal income, tax burdens are getting smaller, both nationally and in Florida.

■ Florida's per capita combined state and local tax ranking fell five spots (2000 state data and 1999 local data) to 33rd. These taxes total $2,641, up $78 from the previous year.

■ Although the tax burden in dollars is smaller, Florida's local governments tax citizens relatively higher than state government when compared to the other 49 states. Floridians' had the nation's 20th largest per capita local tax burden in 1999 (latest available data).

■ Florida's rankings for taxes as a percent of personal income are lower than its per capita rankings. State taxes take 5.9% of Floridians' personal income and state and local combine to take out 10.0%. This compares to 6.95% and 11.2%, respectively, nationally. 1999 marked the first time the percentage of Floridians' personal income taken up by taxes has fallen below 6% since 1992.

■ Floridians' per capita burden for local government's largest tax source--the property tax--increased $42 in 1999, to $856. Florida's ranking is 17th, up one spot and our per capita burden is $20 higher than the national average.

■ Transaction taxes (general and selective sales taxes) account for 77% of all Florida's state tax collections. This compares to the national average of 46%. Florida has the fifth largest per capita general sales tax collections, and it increased by $48 in 2000, reaching $939. However, Floridians' selective sales (tax on motor fuels, tobacco, alcoholic beverages, etc.) continued a trend of falling relative to other states. Floridians' ranking for these taxes now stand at 29th.

■ Florida is one of seven states without a personal income tax. Of the four largest states, Florida and Texas have no personal income tax.

■ Florida's state debt burden amounts to $1,180 for each Floridian. This ranks Florida 37th, well below the national average of $1,876. However, Florida's many local governments have debt totaling $3,830 per Floridian, well above the national average.

Summary of Tax Rankings FY 2000

Taxes Per Capita

Tax	Florida	Rank	U.S. Average
State Taxes	$1,553	43	$1,921
General Taxes	939	5	621
Selective Taxes	258	29	277
License	94	36	117
Corporate Income	74	35	115
Documentary Stamp	90	1	15
Property	48	13	39
Personal Income	No Tax	No Tax	692
Local Taxes (FY 1999)	1,088	20	1,149
Property	856	17	837
State and Local Taxes (State - 2000 Local - 1999)	$2,641	33	$3,071

Taxes Per $1000 Personal Income

Tax	Florida	Rank	U.S. Average
State Taxes	$59.12	45	$69.51
General Taxes	35.76	5	22.47
Selective Taxes	9.81	30	10.02
License	3.59	35	4.22
Corporate Income	2.82	34	4.16
Documentary Stamp	3.43	1	0.54
Property	1.82	12	1.42
Personal Income	No Tax	No Tax	25.05
Local Taxes (FY 1999)	40.96	22	42.49
Property	32.23	19	30.93
State and Local Taxes (State - 2000 Local - 1999)	$100.08	45	$112.00

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Floridians' Per Capita State Tax Burden Falls Four Spots to 43rd

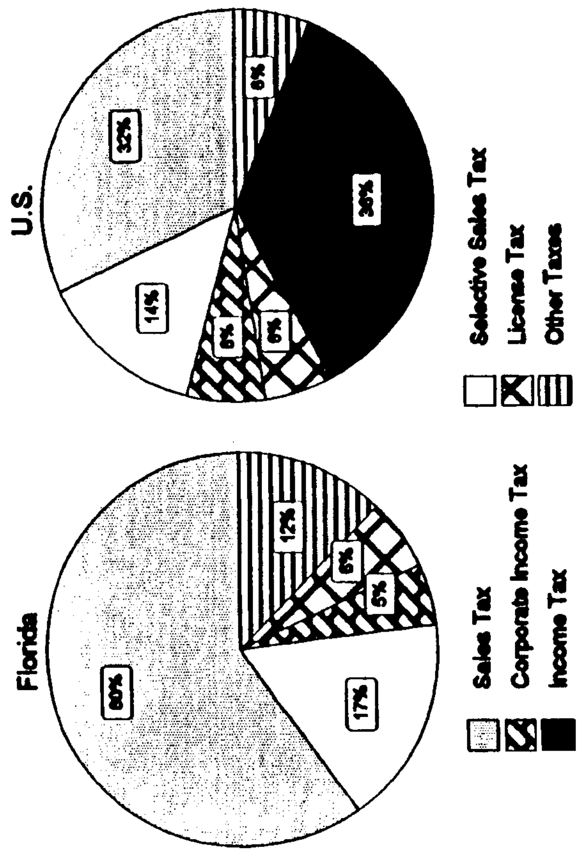
Total Per Capita State Taxation FY 2000

State	Dollars	State	Dollars
1. Connecticut	$2,986.65	26. North Dakota	$1,825.56
2. Hawaii	2,752.49	27. Arkansas	1,821.86
3. Delaware	2,720.94	28. Kansas	1,809.73
4. Minnesota	2,711.37	29. Virginia	1,786.83
5. Massachusetts	2,544.12	30. Utah	1,781.64
6. California	2,474.28	31. Iowa	1,771.98
7. Vermont	2,415.84	32. Nebraska	1,742.02
8. Wisconsin	2,357.16	33. Oregon	1,737.79
9. Michigan	2,289.73	34. Ohio	1,733.12
10. Alaska	2,270.24	35. Oklahoma	1,695.86
11. New York	2,199.35	36. Indiana	1,661.77
12. New Jersey	2,156.74	37. Mississippi	1,656.30
13. Washington	2,132.19	38. Georgia	1,650.44
14. Maine	2,087.25	39. Colorado	1,644.88
15. New Mexico	2,057.77	40. South Carolina	1,590.57
16. Maryland	1,954.97	41. Arizona	1,578.90
17. Wyoming	1,951.57	42. Montana	1,563.70
18. Rhode Island	1,941.12	43. Florida	1,552.79
U.S. Average	1,921.46	44. Missouri	1,531.94
19. Kentucky	1,903.77	45. Louisiana	1,457.24
20. North Carolina	1,890.36	46. Alabama	1,447.78
21. Nevada	1,860.25	47. New Hampshire	1,372.47
22. West Virginia	1,848.80	48. Tennessee	1,360.38
23. Idaho	1,837.20	49. Texas	1,315.19
24. Illinois	1,834.95	50. South Dakota	1,228.39
25. Pennsylvania	1,829.40		

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1996	40	$1,352.41	86.5%
1997	39	$1,414.87	86.6%
1998	41	$1,479.47	85.7%
1999	39	$1,527.84	85.8%
2000	43	$1,552.79	80.8%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Percentage of Total State Taxes Provided by Each Source



Transaction Taxes = Sales Tax + Selective Sales Tax
Florida = 77% U.S. = 46%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Floridians' Per Capita State and Local Tax Burden Rises $78, But Ranking Falls 5 Spots

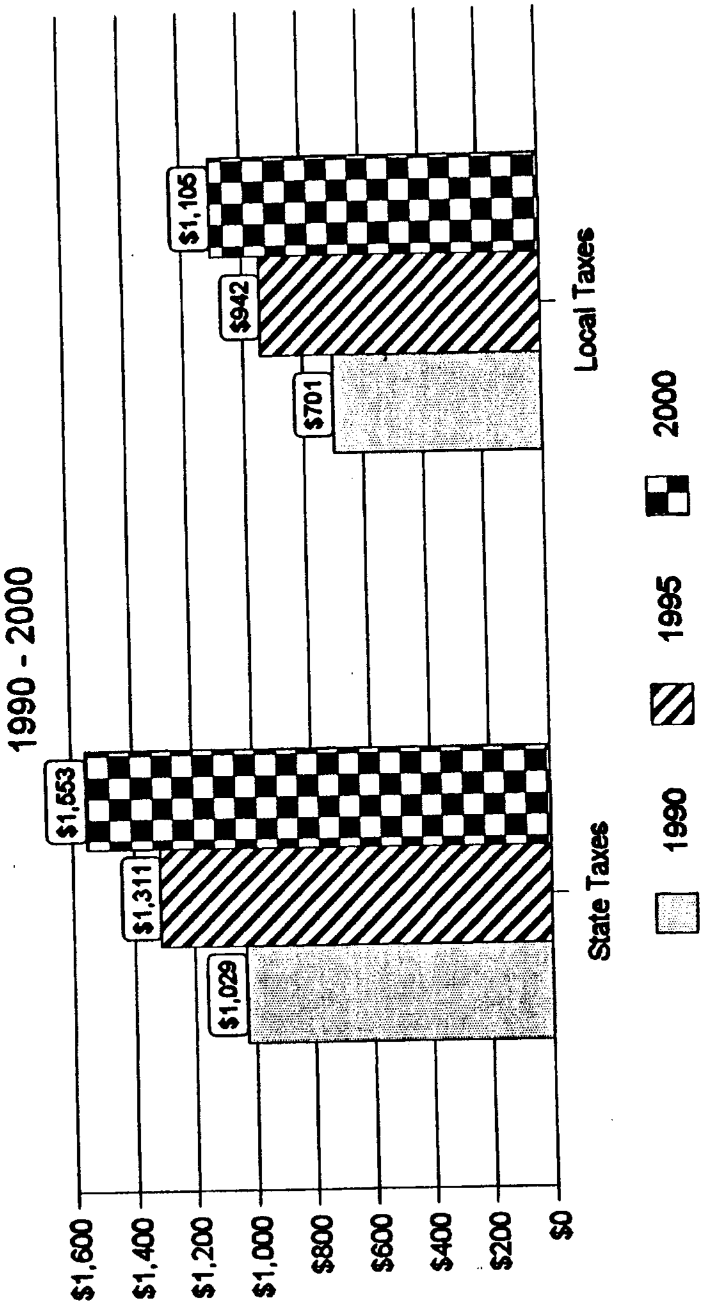
Total Per Capita State and Local Taxation
State - FY 2000 Local FY - 1999

	State	Dollars		State	Dollars
1.	Connecticut	$4,590.87	26.	Kansas	$2,828.18
2.	New York	4,587.28	27.	Georgia	2,811.37
3.	New Jersey	3,955.77	28.	Iowa	2,749.53
4.	Massachusetts	3,764.79	29.	North Dakota	2,711.77
5.	Minnesota	3,696.75	30.	Oregon	2,701.24
6.	Alaska	3,651.65	31.	North Carolina	2,652.36
7.	Wisconsin	3,459.98	32.	Indiana	2,644.38
8.	California	3,457.52	33.	**Florida**	**2,641.16**
9.	Hawaii	3,382.83	34.	New Mexico	2,640.85
10.	Maryland	3,319.50	35.	Utah	2,633.76
11.	Maine	3,317.73	36.	Arizona	2,561.58
12.	Delaware	3,305.77	37.	Missouri	2,531.23
13.	Rhode Island	3,255.03	38.	Idaho	2,530.66
14.	Illinois	3,216.76	39.	Kentucky	2,510.68
15.	Washington	3,136.45	40.	Texas	2,490.40
16.	Michigan	3,105.66	41.	Arkansas	2,397.34
17.	Wyoming	3,087.94	42.	Oklahoma	2,395.88
18.	Vermont	3,082.61	43.	West Virginia	2,389.33
	U.S. Average	**3,070.95**	44.	Louisiana	2,381.78
19.	New Hampshire	3,070.46	45.	Montana	2,351.61
20.	Colorado	3,012.90	46.	South Carolina	2,338.37
21.	Ohio	2,987.69	47.	South Dakota	2,295.88
22.	Pennsylvania	2,963.61	48.	Mississippi	2,202.73
23.	Virginia	2,950.06	49.	Tennessee	2,190.23
24.	Nebraska	2,919.58	50.	Alabama	2,074.37
25.	Nevada	2,888.85			

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1996	27	$2,294.20	89.9%
1997	28	$2,375.20	89.5%
1998	29	$2,479.02	89.3%
1999	28	$2,563.11	88.8%
2000	33	$2,641.16	86.0%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Florida's Per Capita Tax Growth
1990 - 2000



Note: 2000 Local Taxes are estimated.

Source: Florida TaxWatch and U.S. Department of Commerce, December 2001.

Floridians' Local Tax Burden Climbs Above $1000 Per Person

Per Capita Local Taxation
FY 1999 (latest available local data)

State	Dollars	State	Dollars
1. New York	$2,387.93	26. Minnesota	$985.38
2. New Jersey	1,799.03	27. California	983.24
3. New Hampshire	1,697.99	28. Arizona	982.68
4. Connecticut	1,604.22	29. Indiana	982.61
5. Illinois	1,381.81	30. Iowa	977.55
6. Alaska	1,381.41	31. Oregon	963.45
7. Colorado	1,368.02	32. Louisiana	924.54
8. Maryland	1,364.53	33. North Dakota	886.21
9. Rhode Island	1,313.91	34. Utah	852.12
10. Ohio	1,254.57	35. Tennessee	829.85
11. Maine	1,230.48	36. Michigan	815.93
12. Massachusetts	1,220.67	37. Montana	787.91
13. Nebraska	1,177.56	38. North Carolina	762.00
14. Texas	1,175.21	39. South Carolina	747.80
15. Virginia	1,163.23	40. Oklahoma	700.02
16. Georgia	1,160.93	41. Idaho	693.46
U.S. Average	1,149.49	42. Vermont	666.77
17. Wyoming	1,136.37	43. Hawaii	630.34
18. Pennsylvania	1,134.21	44. Alabama	626.59
19. Wisconsin	1,102.82	45. Kentucky	606.91
20. Florida	1,088.37	46. Delaware	584.83
21. South Dakota	1,067.49	47. New Mexico	583.08
22. Nevada	1,028.60	48. Arkansas	575.48
23. Kansas	1,018.45	49. Mississippi	546.43
24. Washington	1,004.26	50. West Virginia	540.53
25. Missouri	999.29		

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1995	23	$941.79	95.3%
1996	20	$960.33	94.1%
1997	20	$999.55	94.8%
1998	22	$1,035.27	93.7%
1999	20	$1,088.37	94.7%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

The Portion of Personal Income Taken Up by State and Local Taxes Is Less Than It Was Five Years Ago, Both in Florida and Nationally

State & Local Taxes as a Percent of Personal Income
State - FY 2000 Local FY - 1999

State	Percent	State	Percent
1. New York	14.18%	26. Mississippi	10.98%
2. Maine	13.89%	27. Montana	10.98%
3. Wisconsin	13.03%	28. Arizona	10.90%
4. Alaska	13.01%	29. Georgia	10.88%
5. New Mexico	12.62%	30. Kansas	10.87%
6. Hawaii	12.56%	31. Oklahoma	10.76%
7. Minnesota	12.46%	32. Washington	10.74%
8. Vermont	12.29%	33. Pennsylvania	10.69%
9. Wyoming	12.18%	34. Louisiana	10.67%
10. Connecticut	12.09%	35. Illinois	10.66%
11. California	12.00%	36. Maryland	10.62%
12. Utah	11.90%	37. North Carolina	10.56%
13. North Dakota	11.82%	38. Indiana	10.43%
14. Rhode Island	11.71%	39. Oregon	10.40%
15. New Jersey	11.56%	40. South Carolina	10.33%
16. Idaho	11.52%	41. Virginia	10.33%
17. West Virginia	11.51%	42. New Hampshire	10.32%
18. Arkansas	11.31%	43. Colorado	10.21%
19. Michigan	11.27%	44. Nevada	10.21%
20. Delaware	11.24%	45. Florida	10.01%
21. Ohio	11.23%	46. Missouri	9.89%
U.S. Average	11.20%	47. Texas	9.73%
22. Nebraska	11.18%	48. South Dakota	9.55%
23. Kentucky	11.10%	49. Alabama	9.26%
24. Massachusetts	11.03%	50. Tennessee	8.93%
25. Iowa	11.00%		

Florida's 5-Year History	Rank	Florida	U.S.
1996	42	10.4%	11.4%
1997	45	10.1%	11.1%
1998	45	10.1%	11.2%
1999	44	10.0%	11.1%
2000	45	10.0%	11.2%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Floridians' State Taxes as a Percentage of Personal Income Stays Below 6%, Ranks 45th

Percent of Personal Income Spent on State Taxes FY 2000

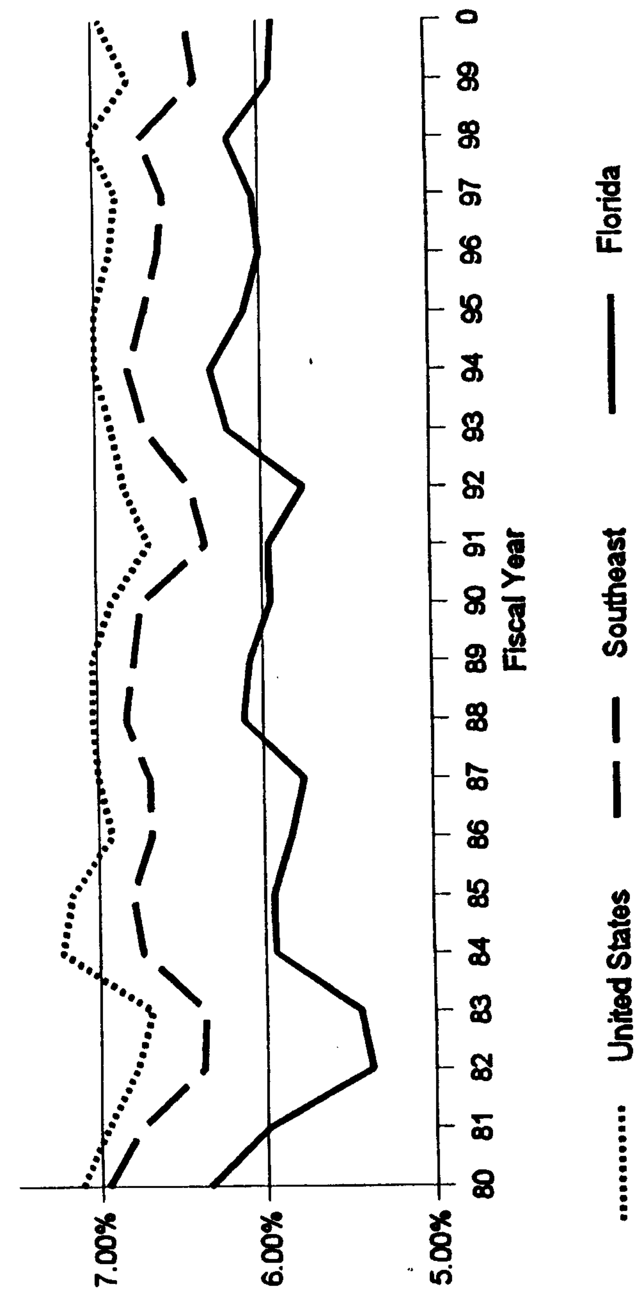
State	Percent	State	Percent
1. Hawaii	10.22%	27. South Carolina	6.98%
2. New Mexico	9.85%	U.S. Average	6.95%
3. Vermont	9.58%	28. Kansas	6.86%
4. Delaware	9.22%	29. New York	6.77%
5. Minnesota	9.09%	30. Arizona	6.73%
6. West Virginia	8.84%	31. Oregon	6.65%
7. Wisconsin	8.80%	32. Nevada	6.63%
8. Maine	8.64%	33. Nebraska	6.62%
9. Arkansas	8.59%	34. Pennsylvania	6.55%
10. California	8.47%	35. Louisiana	6.52%
11. Kentucky	8.36%	36. Indiana	6.50%
12. Idaho	8.30%	37. Ohio	6.43%
13. Mississippi	8.23%	38. Alabama	6.41%
14. Michigan	8.21%	39. Georgia	6.35%
15. Utah	8.03%	40. New Jersey	6.26%
16. Alaska	8.03%	41. Virginia	6.18%
17. North Dakota	7.95%	42. Maryland	6.16%
18. Connecticut	7.84%	43. Illinois	6.03%
19. Wyoming	7.62%	44. Missouri	5.94%
20. Oklahoma	7.59%	45. Florida	5.91%
21. North Carolina	7.53%	46. Colorado	5.53%
22. Massachusetts	7.36%	47. Tennessee	5.52%
23. Montana	7.26%	48. Texas	5.10%
24. Washington	7.19%	49. South Dakota	5.05%
25. Iowa	7.06%	50. New Hampshire	4.51%
26. Rhode Island	7.00%		

Florida's 5-Year History	Rank	Florida	U.S.
1996	42	6.0%	6.9%
1997	42	6.0%	6.9%
1998	42	6.2%	7.0%
1999	43	5.9%	6.8%
2000	45	5.9%	7.0%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

State Taxes as % of Personal Income

Florida, Southeast and United States



Southeastern states are Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina and Tennessee
Source: Florida TaxWatch and U.S. Department of Commerce, December 2001.

Floridians' Per Capita State Sales Taxes Are One-and-a-Half Times the National Average

Per Capita State General Sales Taxes FY 2000

State	Dollars	State	Dollars
1. Washington	$1,313.01	25. Iowa	$588.74
2. Hawaii	1,268.04	26. Indiana	588.67
3. Connecticut	1,004.22	27. Idaho	577.40
4. Nevada	971.68	28. Pennsylvania	574.65
5. Florida	939.21	29. Georgia	565.59
6. New Mexico	825.88	30. Massachusetts	561.54
7. Mississippi	820.27	31. Ohio	551.68
8. Tennessee	781.50	32. Kentucky	537.29
9. Michigan	771.39	33. Illinois	514.77
10. Minnesota	756.92	34. North Dakota	514.28
11. Wyoming	746.85	35. West Virginia	507.12
12. Arizona	708.04	36. Missouri	498.20
13. California	692.54	37. Maryland	471.67
14. Texas	671.99	38. Louisiana	461.14
15. Maine	664.63	39. New York	451.26
16. New Jersey	654.60	40. Colorado	429.94
17. Wisconsin	653.79	41. Oklahoma	417.80
18. Kansas	648.65	42. North Carolina	417.57
19. South Dakota	646.35	43. Alabama	382.70
20. Arkansas	638.38	44. Vermont	353.83
21. Utah	637.32	45. Virginia	349.22
U.S. Average	621.15		
22. South Carolina	612.74		
23. Nebraska	600.69		
24. Rhode Island	592.44		

Alaska, Delaware, New Hampshire, Montana and Oregon have no state general sales tax.

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1996	4	$784.64	150.8%
1997	4	$810.01	149.5%
1998	5	$849.29	149.8%
1999	5	$891.42	150.9%
2000	5	$939.24	151.2%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

State General Sales Tax Rates

as of July 1, 2001

7%	Mississippi, Rhode Island
6.50%	Minnesota, Nevada, Washington
6.25%	Illinois, Texas
6%	Connecticut, Florida, Kentucky, Michigan, New Jersey Pennsylvania, Tennessee, West Virginia
5.75%	California
5.6%	Arizona
5.125%	Arkansas
5%	Idaho, Indiana, Iowa, Maine, Maryland, Massachusetts, Nebraska, New Mexico, North Dakota, Ohio, South Carolina, Vermont, Wisconsir
4.90%	Kansas
4.75%	Utah
4.50%	Oklahoma
4.225%	Missouri
4%	Alabama, Georgia, Hawaii, Louisiana, New York, North Carolina South Dakota, Wyoming
3.5%	Virginia
2.9%	Colorado
No Tax	Alaska, Delaware, Montana, New Hampshire, Oregon

States changing rates from last year: Arizona from 5.0% to 5.6%, California from 7% to 5.75% and Virginia from 4.5% to 3.5%.

Source: National Federation of Tax Administrators and Florida TaxWatch, December 2001.

Florida County Local Option Sales Tax Rates

as of March 2001

1.5%	Escambia, Jackson, Monroe
1%	Baker, Bay, Bradford, Calhoun, Charlotte, Clay, Columbia, DeSoto, D Duval, Flagler, Gadsden, Gilchrist, Glades, Hamilton, Hardee, Hendry Highlands, Hillsborough, Holmes, Indian River, Jefferson, Lafayette, Lake, Leon, Levy, Liberty, Madison, Martin, Nassau, Okeechobee, Osceola, Pinellas, Sarasota, Seminole, Sumter, Suwannee, Taylor, Union, Wakulla, Walton, Washington
0.5%	Gulf, Hernando, Miami-Dade, St. Lucie, Santa Rosa
No Tax	Alachua, Brevard, Broward, Citrus, Collier, Franklin, Lee, Manatee, M Okaloosa, Orange, Palm Beach, Pasco, Polk, Putnam, St. Johns, Vol

Source: Legislative Committee on Intergovernmental Relations and Florida TaxWatch, July 2001.

Floridian's Selective Sales Taxes Burden Continues to Fall Relative to Other States

Per Capita State Selective Sales Taxes FY 2000

State	Dollars	State	Dollars
1. Nevada	$606.67	26. Maine	$269.54
2. North Dakota	505.73	27. Virginia	265.61
3. West Virginia	488.32	28. Iowa	258.26
4. Connecticut	479.83	29. Florida	257.80
5. New Hampshire	449.51	30. New York	249.98
6. Hawaii	425.60	31. Ohio	246.23
7. Vermont	420.28	32. Arkansas	245.47
8. Minnesota	417.03	33. Nebraska	243.81
9. Texas	393.31	34. Indiana	239.66
10. Montana	381.19	35. Tennessee	238.90
11. Louisiana	370.98	36. Idaho	237.90
12. Delaware	369.24	37. Massachusetts	235.40
13. Rhode Island	364.28	38. Utah	224.28
14. Illinois	359.62	39. Missouri	222.35
15. Maryland	351.82	40. Alaska	219.70
16. Alabama	343.27	41. Wyoming	218.35
17. Kentucky	331.69	42. Kansas	214.66
18. North Carolina	331.16	43. Oklahoma	214.12
19. Washington	330.03	44. Michigan	213.14
20. South Dakota	323.90	45. Oregon	212.68
21. New Jersey	319.88	46. Colorado	199.87
22. Wisconsin	305.37	47. Arizona	197.02
23. Mississippi	285.99	48. South Carolina	195.05
24. New Mexico	277.40	49. California	181.95
U.S. Average	277.11	50. Georgia	136.31
25. Pennsylvania	277.10		

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1996	22	$261.67	105.7%
1997	21	$269.34	106.5%
1998	26	$263.11	101.5%
1999	25	$259.35	98.1%
2000	29	$257.81	93.0%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

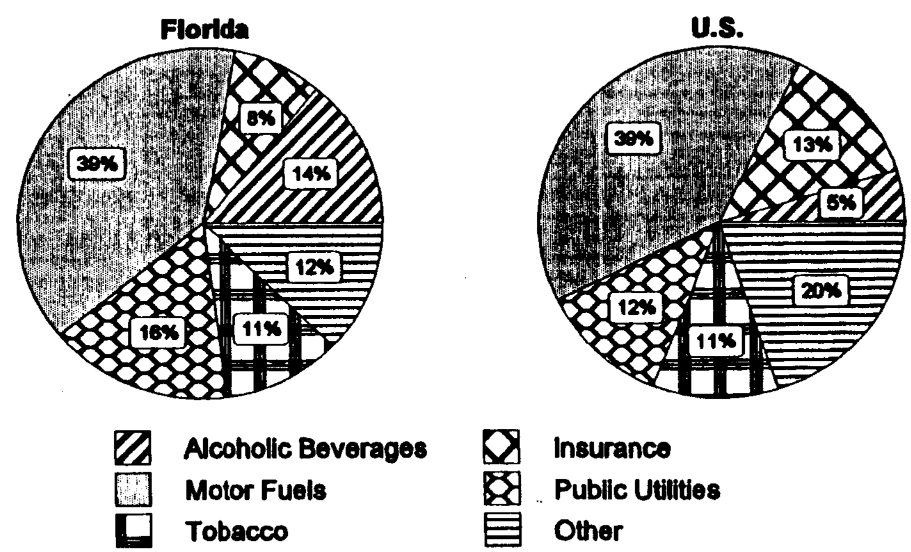
Florida Has Highest Beverage Tax in the Nation, Tobacco Falls Below U.S. Average for First Time

(per capita dollars - FY 2000)

Source	Florida	Rank	U.S. Average
Motor Fuels*	$100.61	40	$107.24
Utilities	$41.68	16	$33.01
Alcoholic Beverages	$35.99	1	$14.61
Tobacco	$27.69	24	$29.84
Insurance	$22.25	45	$34.70
Parimutuels	$3.09	6	$1.20

* Includes only state motor fuel taxes. When local taxes are considered, Florida's top gas tax rate is the fourth highest in the nation.

Percent of Selective Sales Taxes Provided by Source



Source: Florida TaxWatch and U.S. Department of Commerce, December 2001.

Motor Vehicle Tags Make Up More than Half of Floridians' License Tax Burden

Per Capita State License Taxes FY 2000

	State	Dollars		State	Dollars
1.	Delaware	$991.68	26.	Nebraska	$110.86
2.	Oklahoma	243.78	27.	Louisiana	109.67
3.	Minnesota	198.60	28.	California	108.96
4.	Pennsylvania	185.11	29.	Connecticut	107.24
5.	Texas	182.85	30.	Maine	105.40
6.	Nevada	181.40	31.	Washington	103.15
7.	Wyoming	180.62	32.	Missouri	102.88
8.	Oregon	176.84	33.	Mississippi	98.01
9.	Iowa	168.33	34.	Arkansas	97.02
10.	Idaho	167.35	35.	West Virginia	96.36
11.	Tennessee	157.93	36.	Florida	94.17
12.	South Dakota	156.92	37.	New Jersey	93.88
13.	Alaska	146.21	38.	South Carolina	93.51
14.	Ohio	137.30	39.	Hawaii	91.55
15.	Montana	136.51	40.	Kansas	88.08
16.	North Dakota	135.75	41.	Rhode Island	86.58
17.	Kentucky	132.93	42.	Virginia	72.58
18.	Wisconsin	128.26	43.	Maryland	71.59
19.	Illinois	126.47	44.	Massachusetts	70.99
20.	Alabama	121.80	45.	Colorado	69.77
21.	Michigan	121.58	46.	Utah	61.85
	U.S. Average	116.79	47.	Georgia	57.04
22.	New Hampshire	115.36	48.	New York	51.13
23.	North Carolina	113.36	49.	Arizona	50.71
24.	New Mexico	113.11	50.	Indiana	40.35
25.	Vermont	112.22			

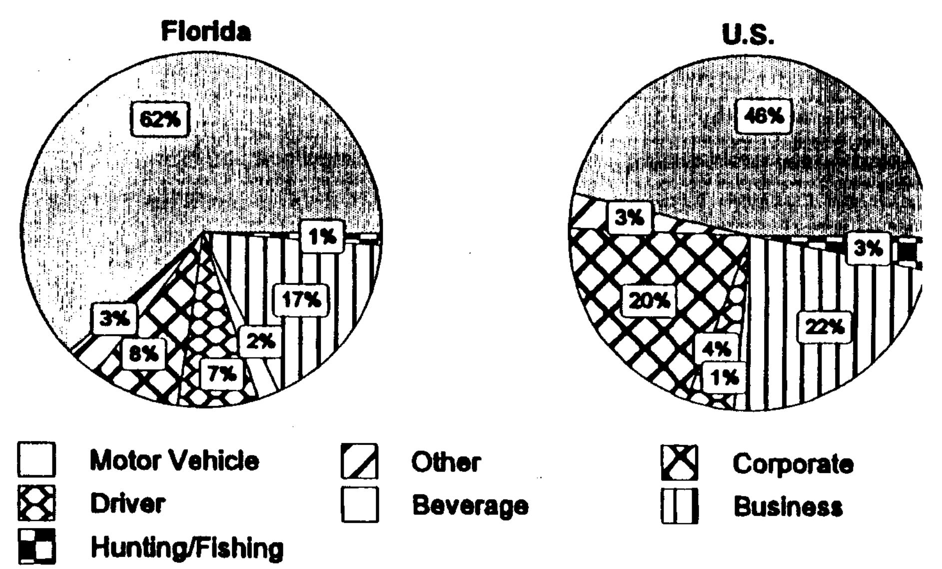
Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1997	33	$90.31	88.6%
1998	32	$91.96	88.0%
1999	33	$94.88	88.7%
1999	33	$96.12	88.7%
2000	36	$94.17	80.6%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

What Makes Up Florida's $94.17 Per Capita License Tax Burden?

License	
Motor Vehicle Tags	$58.00
Business Licenses	$15.85
Corporate Fees	$7.57
Driver Licenses	$7.05
Beverage Licenses	$1.91
Hunting and Fishing Licenses	$0.88
Other Licenses	$2.91
TOTAL	$94.17

Percent of Total License Taxes by Source



Source: Florida TaxWatch and U.S. Department of Commerce, December 2001.

Corporate Income Tax Collections Fall in 2000 - As Does State Ranking

Per Capita State Corporate Income Taxes FY 2000

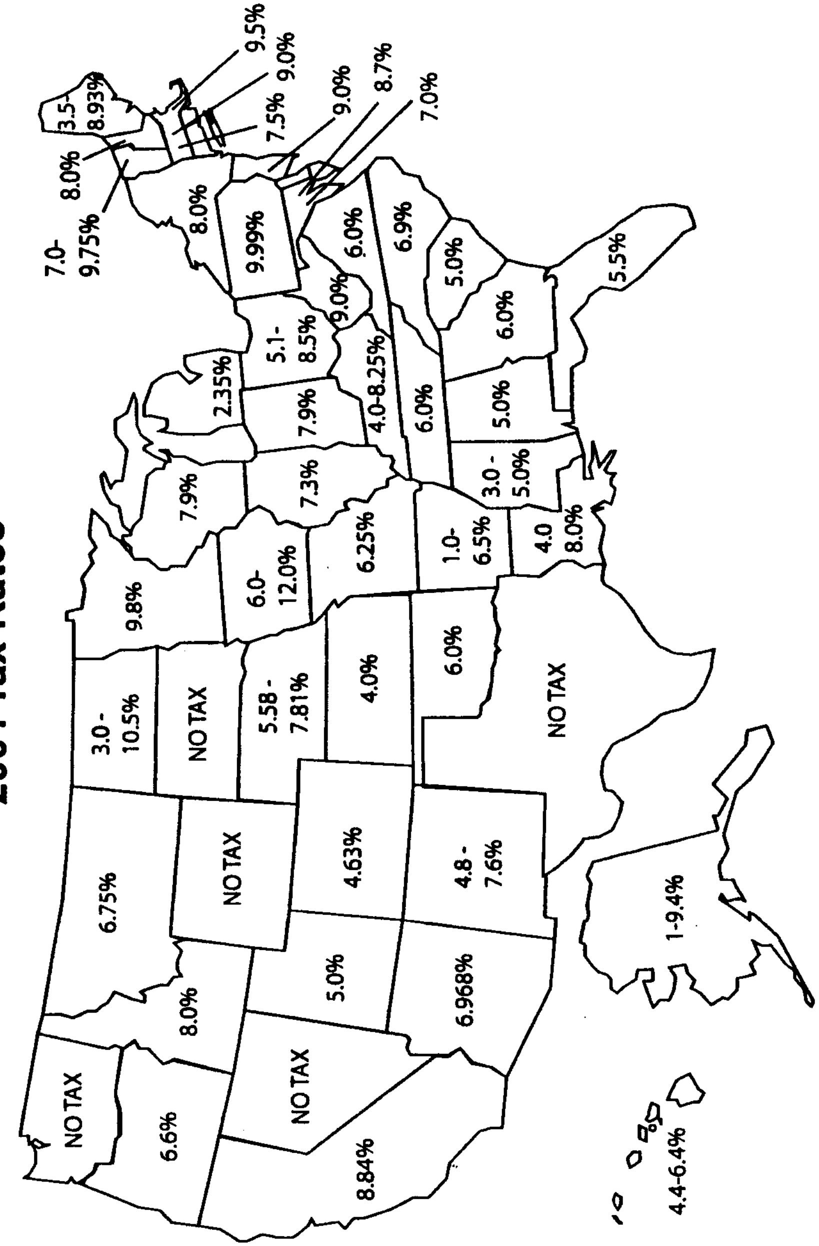
	State	Dollars		State	Dollars
1.	Alaska	699.34	26.	New Mexico	87.59
2.	Delaware	306.69	27.	Georgia	87.02
3.	New Hampshire	252.61	28.	Nebraska	81.82
4.	Michigan	239.73	29.	Maryland	81.40
5.	Massachusetts	205.75	30.	Mississippi	80.05
6.	California	196.00	31.	Virginia	79.95
7.	Illinois	182.08	32.	Colorado	77.88
8.	Minnesota	163.30	33.	Utah	77.83
9.	New Jersey	160.12	34.	Kentucky	75.82
10.	Indiana	152.06	35.	**Florida**	**74.01**
11.	New York	146.05	36.	Iowa	73.34
12.	Pennsylvania	138.17	37.	Vermont	72.98
13.	Connecticut	125.27	38.	Rhode Island	71.38
14.	North Carolina	122.90	39.	Hawaii	62.13
15.	North Dakota	121.80	40.	South Dakota	59.78
16.	West Virginia	120.44	41.	South Carolina	56.62
17.	Oregon	118.98	42.	Oklahoma	56.26
18.	Maine	117.69	43.	Ohio	55.54
	U.S. Average	**115.09**	44.	Alabama	54.66
19.	Montana	110.59	45.	Louisiana	49.68
20.	Wisconsin	109.58	46.	Missouri	47.45
21.	Tennessee	107.91			
22.	Arizona	101.97			
23.	Kansas	101.34			
24.	Idaho	97.27			
25.	Arkansas	88.64			

Nevada, Texas, Washington and Wyoming have no state corporate income tax. South Dakota's applies only to financial institutions.

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1996	37	$69.17	63.0%
1997	30	$82.74	73.5%
1998	30	$83.54	73.9%
1999	27	$81.36	74.3%
2000	35	$74.01	64.3%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

State Corporate Income Tax Rates
2001 Tax Rates



Florida is One of Seven States Without a Personal Income Tax

Per Capita State Personal Income Taxes FY 2000

	State	Dollars		State	Dollars
1.	Massachusetts	$1,424.13	26.	Iowa	$646.01
2.	New York	1,222.27	27.	Missouri	634.52
3.	Oregon	1,197.59	28.	Oklahoma	618.58
4.	California	1,168.37	29.	Indiana	617.28
5.	Connecticut	1,166.80	30.	Illinois	614.94
6.	Minnesota	1,127.62	31.	South Carolina	609.56
7.	Wisconsin	1,109.74	32.	Montana	572.23
8.	Virginia	964.74	33.	Pennsylvania	551.30
9.	Delaware	935.94	34.	Arkansas	549.87
10.	North Carolina	881.75	35.	West Virginia	534.04
11.	Hawaii	878.48	36.	New Mexico	484.24
12.	Maryland	870.99	37.	Alabama	465.79
13.	New Jersey	856.31	38.	Arizona	446.71
14.	Colorado	845.55	39.	Louisiana	354.05
15.	Maine	844.69	40.	Mississippi	353.88
16.	Rhode Island	790.77	41.	North Dakota	309.28
17.	Georgia	777.45	42.	New Hampshire	53.39
18.	Idaho	746.11	43.	Tennessee	31.69
19.	Utah	739.51			
20.	Ohio	725.90			
21.	Michigan	723.49			
22.	Vermont	709.56			
23.	Kansas	692.46			
	U.S. Average	692.40			
24.	Nebraska	686.00			
25.	Kentucky	668.42			

Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming have no state personal income tax.

Florida's 5-Year History (calendar year)	Per Capita Pers. Income	Rank	% of U.S. Average
1996	$23,942	20	98.6%
1997	$24,901	20	97.9%
1998	$26,159	19	97.2%
1999	$26,560	23	95.3%
2000	$27,836	21	94.5%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Florida Has Nation's Largest Documentary Stamp and Stock Transfer Tax Collections

Per Capita Documentary Stamp and Stock Transfer Taxe FY 2000

	State	Dollars		State	Dollars
1.	Florida	$90.07	23.	Illinois	$4.6
2.	Washington	73.60	24.	Nebraska	4.2
3.	New Hampshire	68.79	25.	West Virginia	3.6
4.	Delaware	61.90	26.	Iowa	3.3
5.	Vermont	34.21	27.	Oklahoma	2.6
6.	Connecticut	33.52	28.	Rhode Island	2.0
7.	Minnesota	28.74	29.	Nevada	1.6
8.	Pennsylvania	26.19	30.	Kentucky	0.6
9.	Michigan	25.87	31.	South Dakota	0.1
10.	New York	23.08	32.	Georgia	0.0
11.	Maryland	22.28			
12.	Tennessee	21.08			
13.	Virginia	20.57			
14.	Massachusetts	20.06			
15.	Maine	15.21			
	U.S. Average	14.98			
16.	New Jersey	13.84			
17.	South Carolina	9.20			
18.	Wisconsin	8.44			
19.	Hawaii	7.80			
20.	Oregon	7.47			
21.	Arkansas	6.31			
22.	Alabama	5.96			

Alaska, Arizona, California, Colorado, Idaho, Indiana, Kansas, Louisiana, Mississippi, Missouri, Montana, New Mexico North Carolina, North Dakota, Ohio, Texas, Utah and Wyoming have no documentary stamp or stock transfer tax.

Note: Includes intangibles tax mortgages and other realty tra or stock transfer taxes.

Florida's 5-Year History	Rank	Dollars	% of U.S. Averag
1996	2	$62.42	737.6%
1997	1	$66.85	673.0%
1998	2	$81.40	632.1%
1999	1	$91.88	630.3%
2000	1	$90.07	601.3%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Cut in Florida's Intangibles Tax Drops Our Ranking; More Reductions to Come

Per Capita State Property Taxes
FY 2000

	State	Dollars		State	Dollars
1.	Vermont	$664.74	26.	Missouri	$3.29
2.	New Hampshire	383.33	27.	South Carolina	3.16
3.	Washington	288.03	28.	Nebraska	2.55
4.	Montana	242.61	29.	Ohio	1.99
5.	Wyoming	205.35	30.	West Virginia	1.96
6.	Arkansas	180.25	31.	Minnesota	1.91
7.	Michigan	171.30	32.	Rhode Island	0.90
8.	California	98.34	33.	Indiana	0.61
9.	Kentucky	96.18	34.	Mississippi	0.48
10.	Alaska	71.15	35.	New Jersey	0.36
11.	Arizona	57.83	36.	Oregon	0.03
12.	Maryland	48.34	37.	Massachusetts	0.02
13.	**Florida**	**47.72**			
14.	Nevada	46.41			
15.	Alabama	40.44			
	U.S. Average	39.15			
16.	Maine	23.96			
17.	New Mexico	19.17			
18.	Kansas	18.08			
19.	Wisconsin	16.25			
20.	Pennsylvania	9.56			
21.	Georgia	5.88			
22.	Louisiana	5.57			
23.	Virginia	4.81			
24.	Illinois	4.38			
25.	North Dakota	3.87			

Colorado, Connecticut, Delaware, Hawaii, Idaho, Iowa, New York, North Carolina, Oklahoma, South Dakota, Tennessee, Texas and Utah have no state property taxes.

Note: Florida's Constitution prohibits a state property tax except on intangible property such as stocks and bonds

Note: Florida's intangible tax on mortgages is included in the table on page 21.

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1996	9	$51.80	139.1%
1997	9	$52.86	139.7%
1998	8	$64.71	167.0%
1999	9	$61.70	153.7%
2000	13	$47.72	121.9%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Floridians' Per Capita Local Property Tax Burden Increases by $42

Per Capita Local Property Taxes
FY 1999 (latest available local data)

	State	Dollars		State	Dollars
1.	New Jersey	$1,760.40	26.	Maryland	$752.
2.	New Hampshire	1,676.81	27.	Montana	750
3.	Connecticut	1,576.73	28.	Michigan	732
4.	New York	1,360.59	29.	Arizona	694
5.	Rhode Island	1,296.17	30.	Georgia	690
6.	Maine	1,200.45	31.	Idaho	651
7.	Massachusetts	1,182.25	32.	Nevada	651
8.	Illinois	1,145.26	33.	California	651
9.	Alaska	1,095.34	34.	Vermont	639
10.	Wisconsin	1,036.68	35.	South Carolina	635
11.	Texas	938.18	36.	Washington	626
12.	Nebraska	937.74	37.	Missouri	601
13.	Minnesota	931.65	38.	North Carolina	568
14.	Iowa	882.79	39.	Utah	559
15.	Wyoming	882.23	40.	Hawaii	501
16.	Indiana	870.48	41.	Mississippi	501
17.	**Florida**	**856.34**	42.	Tennessee	489
18.	South Dakota	842.14	43.	Delaware	462
19.	Colorado	841.62	44.	West Virginia	447
	U.S. Average	836.87	45.	Arkansas	371
20.	Virginia	833.73	46.	Oklahoma	368
21.	Ohio	827.74	47.	Louisiana	364
22.	Pennsylvania	790.62	48.	Kentucky	326
23.	North Dakota	780.48	49.	New Mexico	315
24.	Kansas	779.08	50.	Alabama	235
25.	Oregon	771.44			

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1995	18	$758.07	102.9
1996	16	$767.94	102.1
1997	19	$787.67	101.2
1998	18	$814.29	100.4
1999	17	$856.34	102.3

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Florida's State Debt Burden Amounts to $1,180 for Each Floridian

Per Capita State Debt Burden
FY 1999 (latest available data)

State	Dollars	State	Dollars
1. Alaska	$6,307.39	26. Nevada	$1,656.96
2. Massachusetts	5,797.24	27. Oklahoma	1,656.87
3. Rhode Island	5,513.78	28. Michigan	1,641.22
4. Connecticut	5,333.58	29. Louisiana	1,635.97
5. Delaware	4,923.90	30. California	1,628.44
6. Hawaii	4,574.95	31. Missouri	1,628.22
7. New Hampshire	4,518.35	32. Idaho	1,622.39
8. New York	4,207.42	33. Pennsylvania	1,472.27
9. Vermont	3,563.04	34. Ohio	1,329.22
10. New Jersey	3,430.17	35. South Carolina	1,307.74
11. Maine	3,092.65	36. Indiana	1,187.35
12. South Dakota	2,871.57	37. **Florida**	**1,179.62**
13. Montana	2,667.47	38. Mississippi	1,164.47
14. Illinois	2,191.78	39. Minnesota	1,148.48
15. Wyoming	2,178.77	40. Nebraska	1,092.52
16. Maryland	2,165.77	41. North Carolina	1,075.31
17. Wisconsin	2,138.12	42. Alabama	1,022.21
18. North Dakota	2,096.85	43. Colorado	1,000.68
19. West Virginia	2,041.70	44. Arkansas	975.39
20. Washington	1,924.90	45. Iowa	861.64
U.S. Average	1,875.60	46. Georgia	804.93
21. Kentucky	1,873.72	47. Texas	735.19
22. New Mexico	1,815.21	48. Tennessee	605.66
23. Utah	1,775.07	49. Arizona	570.35
24. Oregon	1,730.26	50. Kansas	558.52
25. Virginia	1,728.03		

Florida's 5-Year History	Rank	Dollars	% of U.S. Average
1995	34	$1,084.96	57.3%
1996	36	$1,077.42	63.8%
1997	36	$1,093.33	64.1%
1998	37	$1,137.66	63.5%
1999	37	$1,179.62	62.9%

Source: U.S. Department of Commerce and Florida TaxWatch, December 2001.

Business Pays Nearly Half of All State and Local Taxes in Florida

Share of Total State and Local Taxes Paid by Business
FY 1997

State	Percent	State	Percent
1. Alaska	88.4%	26. Vermont	38.4%
2. Wyoming	65.8%	27. Pennsylvania	38.4%
3. Texas	54.0%	28. Iowa	38.1%
4. Washington	50.6%	29. Nebraska	37.7%
5. **Florida**	**46.6%**	30. New Jersey	37.6%
6. North Dakota	46.6%	31. Connecticut	37.6%
7. Illinois	46.2%	32. Colorado	37.6%
8. Montana	45.9%	33. Hawaii	37.0%
9. Indiana	45.5%	34. Idaho	36.3%
10. Louisiana	44.9%	35. Arkansas	36.3%
11. Tennessee	44.4%	36. Missouri	36.2%
12. West Virginia	44.2%	37. Kansas	35.9%
13. South Dakota	44.2%	38. Utah	35.8%
14. Arizona	43.4%	39. Massachusetts	35.6%
15. New Hampshire	42.5%	40. South Carolina	35.4%
16. Minnesota	42.1%	41. Nevada	35.2%
17. Michigan	41.8%	42. Oregon	34.9%
18. New York	41.4%	43. Oklahoma	34.3%
19. Rhode Island	41.3%	44. Wisconsin	33.3%
20. Mississippi	40.8%	45. Kentucky	32.8%
21. Maine	40.5%	46. Ohio	32.7%
22. New Mexico	40.2%	47. North Carolina	31.7%
23. Delaware	39.4%	48. Alabama	31.4%
24. Georgia	38.9%	49. Virginia	30.7%
25. California	38.7%	50. Maryland	25.6%

Source: Institute on Taxation and Economic Policy, September 1997.

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APPENDIX G

Florida's tax revenues have grown substantially, both in terms of inflation-adjusted revenues per person and as a percentage of income.

Florida's Tax Revenue Growth
1970-2000

Fiscal Year	Tax Revenues (Billions of Dollars)	Percent Increase	Infl. Adj. Taxes Per Person	Percent Increase	Taxes as a Percent of Income
99-00	$27.0	5.4%	$1873	2.3%	6.6%
98-99	$25.7	5.4%	$1831	2.1%	6.7%
97-98	$24.3	7.6%	$1794	3.2%	6.7%
96-97	$22.6	5.1%	$1739	2.3%	6.5%
95-96	$21.5	4.9%	$1735	0.0%	6.7%
94-95	$20.5	3.6%	$1735	-0.1%	6.8%
93-94	$19.8	6.7%	$1750	1.7%	7.0%
92-93	$18.6	11.1%	$1721	5.7%	7.0%
91-92	$16.7	9.6%	$1628	2.1%	6.6%
90-91	$15.2		$1594		6.2%
85-86	$9.2		$1256		
80-81	$5.2		$1086		5.4%
75-76	$2.9		$987		
70-71	$1.6		$1027		6.1%